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TARGETING FEDERAL AID

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INTERGOVERNMENTAL RELATIONS

OF THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

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TARGETING FEDERAL AID

THURSDAY, JULY 24, 1986

U.S. SENATE,
SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:09 a.m., in room SD-342, Dirksen Senate Office Building, Hon. Dave Durenberger (chairman of the subcommittee) presiding.

Present: Senator Durenberger.

OPENING STATEMENT OF SENATOR DURENBERGER

Senator **DURENBERGER**. The subcommittee will come to order. Our hearing today is about smart spending by targeting general purpose Federal aid to local communities that need it most.

Why targeting? Because it allows us to honor our competing commitments to reduce the deficit and still address vital public services.

Fiscal responsibility is at the heart of effective and responsible government. But, in our determination to bring Federal deficits under control, the trend is only too clear. We have been asking State and local governments to do more—at the same time that we are cutting back on the Federal support that they need to meet their responsibilities.

In health services, real Federal aid to State and local governments is down by 14 percent. Child nutrition, down 14 percent. Mass transit, down 19 percent. Economic development—39 percent. Social services—25 percent. Job training and employment—a 69-percent reduction in Federal support for local efforts.

Serious as these trends are in the aggregate, they don't reflect the full impact of declining Federal aid on poorer communities, many of them located in rural parts of America.

This subcommittee recently completed an indepth study on the public impacts of the farm crisis entitled, "Governing the Heartland: Can Rural Communities Survive the Farm Crisis?"

We are all familiar with the devastating effects of the agricultural recession on farm families and small-town businesses. Less recognized is the growing threat which that crisis, coupled with simultaneous cuts in Federal and State aid, poses to the financial survival of rural government.

As farm land values decline, assessed property tax valuations, which are the cornerstone of the local tax system, also fall. And, with property taxes comprising up to 48 percent of local own source revenues in some farm States, this devaluation places a severe strain on local governments' capacity to raise enough money to provide their citizens with roads, schools, public safety, sanitation, and public hospitals.

At the same time that local revenues are being squeezed, service demands on rural governments are increasing. More and more farmers, small business people, and their families are seeking stress and financial counseling from public agencies and applying for job training and public assistance.

While local revenues are down and service demands are up, the budget decisions we have made in Washington are aggravating the situation. Between 1982 and 1984, the impact of Federal aid cuts on the 85 agricultural communities my subcommittee studied was many times greater than the impact on general purpose governments.

The bottom line of these trends is bleak. If we don't respond in time, local governments in rural areas may lose up to one-fifth of their per capita revenues due to falling farmland values and cuts in Federal and State aid. That amounts to almost $1,000 per family of four.

Given the gravity of this situation, we at the national level must be careful that, in our attempts to solve the budget crisis, we do not exacerbate the rural crisis.

Consider general revenue sharing. The value of GRS to urban communities has received widespread attention in the press and on Capitol Hill. Yet GRS funds are twice as important to rural communities. Nationwide, general revenue sharing comprises 22 percent of Federal aid to all local governments, but it represents 44 percent of Federal aid to local governments in agriculturally dependent areas.

General revenue sharing, as you all know, is now on the block. I sympathize with many Members of Congress who have voted against the program. Given the severe spending constraints which we face, many question the wisdom of providing general revenue sharing funds to wealthy cities and communities.

But we must remember that there are thousands of counties, cities, and towns that find it difficult just to provide basic public services.

They include the rural communities in States like Minnesota, North Dakota, and Iowa that have been stricken by falling land values and declining property taxes. They also include cities in southern Florida, and southern California that have received an enormous influx of non-English speaking people.

They include the towns and cities in Pennsylvania, Ohio, and West Virginia that have seen their major industries close or move elsewhere and unemployment rates skyrocket.

They include struggling textile manufacturing towns in the Southeast and panned-out mining communities in the West. This list could go on and on.

I don't believe that the current budget crisis is an excuse to neglect our responsibility to people who live in communities like these.

I believe there is a way to honor our commitment to reducing the budget deficit and to honor our long commitment to local governments. The solution is really very simple: better targeting of Federal aid to get more bang with fewer bucks.

In January, I introduced a bill to create a program called targeted fiscal assistance which will assure that all communities can provide their citizens with a minimum level of basic public service like police and fire protection, street and bridge maintenance, public health and services for the elderly. It will serve as a fiscal safety net for needy communities in both rural and urban areas.

The program I propose retains the heart of general revenue sharing, but applies it to today's economic realities. Under TFA, targeted fiscal assistance, local governments will continue to receive general purpose grants that they can use to meet their own funding priorities. But my program will better target funds to those who need it the most: communities that face above-average service demands, but lack the resources to meet these needs on their own.

At a funding level of $2.3 billion a year, targeted fiscal assistance will go as far as a fully funded $4.6 billion general revenue sharing program in reducing fiscal disparities. Because of greater targeting, with only half the current funding of general revenue sharing, we can have a more efficient, more effective, better program. Many hard-hit communities come out even better than they do under general revenue sharing.

How does targeted fiscal assistance do it? The formula is complicated, but the bottom line is clear. If the community is poor, it gets money. If that community tries hard to solve its problems, it gets more money. If a community is rich, it is out of luck.

TFA has neither a rural nor an urban bias—its only bias is need. However, targeted fiscal assistance is more responsive than general revenue sharing to communities that are experiencing fiscal distress due to the agriculture and other natural resource related crises.

Targeted fiscal assistance is my approach to meeting our twin responsibilities. But it's not the only approach. Today, we will be hearing more about targeted fiscal assistance, as well as some other targeted fiscal alternatives.

I welcome everyone here today. I would like to call on my colleague, our first witness, Mark Andrews of North Dakota. Mark has taught me a lot about targeted fiscal assistance, particularly fiscal assistance to needy communities in the agricultural crisis.

TESTIMONY OF HON. MARK ANDREWS,[1] U.S. SENATOR FROM THE STATE OF NORTH DAKOTA

Senator Andrews. Thank you, Mr. Chairman.

It is good to be here. I am pleased to testify before your subcommittee this morning on the targeted fiscal assistance program, S. 2037, which I am proud to join you in cosponsoring. This legislation, as you know, and I am sure most of the people in this room know, is extremely important to local communities as they face the unique challenge of providing services with limited resources. This problem is one which requires our immediate attention because the general revenue-sharing program is scheduled to be terminated at the end of the current fiscal year.

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[1] See p. 5 for Senator Andrews' prepared statement.

Let me state for the record that I, with my colleague and good friend from Minnesota, have always been a strong and long-time supporter of general revenue sharing. Our cities and townships have been able to provide quality services because of this outstanding program. It is my hope that the Congress will reconsider eliminating GRS, and pass legislation that will allow the General Revenue Sharing Program to continue past September 30 of this year. However, since every day that possibility diminishes, we simply can't hide our head in the sand, and think that everything is going to be all right. We have a duty to explore alternative approaches such as the Targeted Fiscal Assistance Program.

Throughout my congressional career, I have always believed that the local governments were best able to determine the allocations of funds to be spent within their communities. They are closest to their people, they know best what they need, and the Targeted Fiscal Assistance Program will allow these communities to make those critical decisions.

The goal of this program is to direct the State's given allocation to those communities most in need. North Dakota is a State where the Targeted Fiscal Assistance Program would be effective because our two primary industries—agriculture and energy—are both severely depressed and the immediate economic outlook for the State is bleak.

Although we must continue our efforts to lower the deficit, we have to remain sensitive to the genuine needs of our people. We can't allow cutbacks in municipal services, such as police and fire protection, meals-on-wheels programs for our seniors, transportation services for the elderly and handicapped, and various other programs that directly impact on the health and welfare of our citizens. The Targeted Fiscal Assistance Program guarantees, Mr. Chairman, as you know so well, that local communities will be able to continue to provide these most important services.

It is my understanding that the program will be funded at $2.28 billion per year. Although this is a 50-percent reduction from the present General Revenue Sharing Program, TFAP will eliminate the most egregious inequities of Gramm-Rudman-Hollings and assure communities most in need of their share of Federal funds.

Mr. Chairman, in discussing S. 2037, I would like to make it clear that I have always championed general revenue sharing and I will fight vigorously to restore it. I was privileged to serve in the House with former Congressman and Secretary of Defense Melvin Laird, the father of the Revenue Sharing Program. In fact, Mr. Chairman, I cast the inaugural vote with him for this program back in 1969. We started it out looking at the need for education. We felt that we needed a national equilization in education because the children from North Dakota and Minnesota, very often after they are educated, go off and contribute to the success and the future of States like New York, Ohio, or Arizona, or wherever else. Those other States have a stake in adequate education. Education is the greatest consumer of local tax dollars.

We thought, in setting up this fund, we would base it on two points: One, individual effort, in other words, what that local district did on their own; and, two, the number of students—50 percent, the pupil population, and 50 percent the effort factor. As a matter of fact, North Dakota and Minnesota, Mr. Chairman, as you know so well, contribute to the education of other children. Every time we buy a car, we are contributing to the education of children in Michigan. Every time we buy a tractor, we are contributing to the education of children in Iowa, if that tractor is made in Iowa. That is why a national equalization fund makes sense.

When you look at the statistics, you find that while a State like North Dakota is able to pay far less per teacher in wages, they are paying far more in percent of assets for education than most of these other States.

You continue, in your very perceptive way, this concept of a national equalization fund for local communities that, in a sense, will be used basically for education because that is where the bind is. While this Targeted Federal Assistance Program may move in for meals-on-wheels and other things, ultimately you are going to be helping education, helping local communities, and that is why I am so proud to join in supporting this legislation as a necessary alternative of that concept of helping government at the local level that has been so overlooked and is now being shunted aside at the very time it should be nurtured and built up.

I think, quite candidly, Mr. Chairman, that people in North Dakota and Minnesota know far better how to run these programs than these bureaucrats in Washington, DC, and I think that it is a lot more cost effective. That is why this program will actually save money, instead of cost money.

Senator **Durenberger**. I thank you very much. I appreciate your testimony, particularly since it comes from the perspective of having been here when the decisions were made on General Revenue Sharing. And now it is helpful to have the opportunity to think again in terms of local communities where we can use scarce resources in a much more effective way.

Senator **Andrews**. We appreciate your leadership on this issue, Mr. Chairman. Thank you for letting us testify today.

Senator **Durenberger**. Thank you very much.

Next on my list is Bob McEwen, and we also have Dan Evans sitting out there.

Dan, you are next. He is a great expert, an original cosponsor of this particular approach of targeted fiscal assistance, someone who will always be remembered as one of the Nation's most famous Governors, and a person whose life-long commitment to improving the quality of governance in this country does not have to be told to anyone.

Dan Evans, we are really pleased that you are here today. Your statement will be made part of the record.

TESTIMONY OF HON. DANIEL J. EVANS,[1] U.S. SENATOR FROM THE STATE OF WASHINGTON

Senator **Evans**. Thank you, Mr. Chairman.

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[1] See p. 38 for Senator Evans' prepared statement.

I do appreciate the opportunity, I think, to go right now because we are just starting a hearing in the Foreign Relations Committee on South Africa, and I should be there, but I don't particularly look forward to it.

Let me make two comments before a summary of my statement. I suppose, general revenue sharing has been a popular program, and I guess remained so because there are so many of us who would like to be considered as part-parents of that program. In listening to my colleague from North Dakota, I was reminded that in 1969, we had a Joint Task Force of about nine of us—three Governors, three mayors, and three county officials—meet with the Vice President in an attempt to iron out the difficulties that were then existing between those levels of government. Out of that meeting came an agreement, which I think made it possible to proceed ahead without much controversy on the establishment of general revenue sharing.

Senator Andrews also pointed out that local and State governments can do things far better than the bureaucrats in Washington, DC. I should point out to him, and to myself, and to the chairman, that everything that the bureaucrats in Washington, DC, do is given life by the actions we take here in Congress. So we need look no further than to ourselves as far as that bureaucratic maze which we have developed.

I appreciate this opportunity to discuss a proposal—I will go beyond direct comments on this piece of legislation, although I will come back to it—that offers a thorough overhaul of our intergovernmental relationships, a proposal that would achieve sweeping federalism reform, and a major reordering of Federal domestic priorities on which Republicans and Democrats, conservatives and liberals, Federal, State, and local governments, I believe, can ultimately agree.

It would provide a responsible, achievable middle ground for the coming debate over welfare reform and family policy, and present a structural change to government of sufficient strength to help solve our deficit crisis.

Most importantly, the elements of this proposal would be implemented gradually on a fiscally neutral basis in the grand tradition of tax reform.

In December 1985, the Committee on Federalism and National Purpose released its report entitled, "To Form a More Perfect Union." It was the culmination of work of the committee, cochaired by former Governor Charles Robb of Virginia and myself, along with Senator Durenberger and a group of 22 other representatives from all levels of government, from several national administrations, academicians and well-respected professionals. Truly, the strength of the committee was the consensus we found and the whole of all the individual recommendations.

A report is a report is a report is a report. We were unwilling to allow it to sit and gather dust on some shelf somewhere. So we enlisted experts from the National Governors Association, the Governors' budget directors, and from GAO, as well as former Democratic and Republican Administration officials to draw up a package of far-reaching legislation which could carry into effect the recommendations of that report.

We believe and hope to implement the report's recommendations in a fiscal neutral way by seeking leadership and membership support, building a diverse coalition, using the reconciliation process, starting as early as 1987. As a starting point, however, we hope to initiate discussion by introducing omnibus legislation in September, which I hope will be the topic of hearings held by this subcommittee this fall, and through the beginning of next year.

We have developed combinations of proposals at this point, but we have not settled on any particular one, but options that do meet the test of fiscal neutrality. These combinations are consistent with the report's fundamental recommendations of establishing national minimum benefit levels and eligibility standards for AFDC and Medicaid Programs, with up to 90 percent Federal funding. States should retain administrative responsibility and to the maximum extent possible, convert these welfare systems into true, honest job systems.

After all, to be poor and hungry in New York or California is little different than being poor and hungry in Mississippi, Maine, or Missouri.

In conjunction with that assumption of fiscal responsibility at the Federal level, most local community development, infrastructure, and many personal social service programs at the national level would be terminated. State and local governments could replace Federal spending for programs that are more cost effective, more responsive to their priorities, and which I suggest without a dual level of management would be far, far more cost effective in getting money to the recipients and the people we intend to help.

While terminating programs pose difficult choices for Congress, it becomes much more palatable, I believe, when it represents a give and take between Federal, State and local governments. Even with the bold efforts of Senators Domenici and Chiles, and the other members of Budget Committees in both Houses, they are restricted to offering status quo budgets that are responsive to this year's needs, but not next. By allowing programs to continue at yearly spending freezes or, in the case of many, reductions of 5 or 10 percent, we are not doing an effective job, and we are slowly strangling many important programs.

Consolidating into a block grant the Federal contributions to the nonmedical aspects of long-term care is important. While a comprehensive solution appears to be perhaps a decade away, this block grant proposal may provide a first step in that direction.

Now, Mr. Chairman, I would speak directly of the programs that would be similar to the proposal now in front of the committee.

Creating targeted assistance programs would be a necessary adjunct to this massive change in management within this country. Integral to this federalism proposal are fiscal capacity grants targeted to those States and localities with very low tax capacity, simply those which manifestly can't help themselves.

The original recommendations of the report sought to establish fiscal capacity grants targeted to perhaps the 12 or 15 poorest States, with a transitional local assistance program to help cushion the immediate impact on communities. However, it is difficult to determine the relationship among the State and local programs, specifically, which should be permanent and at what level of funding. Until the proposal's distributive impact on States and local communities has been calculated, such decisions cannot be made.

One issue is clear, however. The chairman's targeted fiscal assistance legislation, S. 2037, creates a splendid foundation on which to build. It introduces the important concepts of fiscal capacity and targeting funds based on this measurement.

Even though I am an original cosponsor, I believe that with the development of the overall federalism proposal, there are some changes which might bring it closer into unison with those proposals as they evolve.

I believe it should provide for increased responsibility of State governments in passing through funding for local governments by allowing them to add need factors and/or better fiscal capacity measures, eventually giving the States the discretion to allocate funds under a substitute formula rather than a federally specified formula. If that is to be done, it has to be done with strong participation, a partnership participation in those decisions by the local communities of that State, and how they are affected.

Second, the major policy decision remains on the appropriate focus of this program. Should it seek broad-based congressional support through increasing the number of beneficiary States, or should it target and attempt to narrow fiscal disparity? I suggest, Mr. Chairman, that we lean toward the latter. As we target, and as we are able to diminish these great fiscal disparities, we ought not to do so by being so broad in our payments and distribution that we dilute that effort.

I think that this can be accomplished by perhaps lowering the income eligibility cutoff, for instance, dropping 125 percent average per capita income to 120 percent. Second, perhaps using U.S. average income rather than State average, and/or, perhaps, increasing the minimum grant that is awarded to a community.

Mr. Chairman, I look forward to working with you in fine-tuning these State and local grant proposals, as well as pursuing the report's other recommendations.

In closing, the broad plan, of which this is an integral, important part, supports a diverse combination of interests. It terminates a number of Federal programs and allows States and localities to determine their own priorities. It creates greater nationwide uniformity in the most important benefits provided by Federal safety net programs. It promises to place welfare recipients into jobs. It removes the tangled web of regulation between Federal and State/local governments. It levels the fiscal disparities between the poorest and wealthiest States. Above all, it reforms our intergovernmental structure, strong enough to help us out of our deficit crisis.

With our Nation celebrating the bicentennial of the Constitution next year, I can think of no better time to return to the basics—to form a more perfect Union.

Senator **Durenberger**. Dan, thank you very much for your testimony. I am going to let you go, but I need, if possible, a comment on the recommendation, which I certainly don't disagree with, that we consider carefully the role that the States are going to play in this process.

I sometimes think that one of the differences between bureaucrats and policymakers is that bureaucrats have a good sense of tradition, but policy-makers have a good sense of history. I remember that 1969 committee very well because the fellow that I worked for, Harold Levander, was one of its members, and that is how you and I first met.

Senator EVANS. It certainly was.

Senator DURENBERGER. Your sense of history tells you that the current chairman of the National Governors' Association was in a similar position as administrative assistant to Howard Baker, and Howard Baker was taking the lead in the Senate, trying to implement this sort of thing.

So in a sense of history, there are some of us who know why we headed into General Revenue Sharing as a country, and we remember the role that the States did play in the original revenue sharing proposal. I think it was the year I arrived at the Senate that we dropped the States from the program and provided money directly to the local governments.

Would you just briefly talk to us about the value of State governments in a targeted fiscal assistance program that is meant to lower fiscal disparities, if that is your recommendation.

Senator EVANS. I remember most vividly that General Revenue Sharing never would have passed, in my view, unless there had been an agreement between these three units of government, State, counties, and cities.

There was great fear, and I think some of it well placed, that if all revenue sharing went to the States and the States made just unilateral decisions on further distribution, there was insufficient trust at that point between those two levels of government. And they wanted some greater assurity.

As we look ahead at targeted fiscal assistance in trying to accomplish what is important to accomplish, and that is to help those areas, those communities, and those States in the Nation, which no matter how hard they try, cannot at this time match some of their counterparts. They simply don't have the revenue, and the revenue capacity. That is what we are trying to achieve.

We do it at two levels, however. One, I think, at the national level, we can investigate pretty carefully and clearly the differences between States, and we can recognize where we ought to put money and how much to generally level those disparities. I think to then further carry it forward and to mandate at the national level uniform formulas that translate from State to local levels, or that go into local communities, is far too large a job. Frankly, I think that this is part of what has helped to bring general revenue sharing into some disrepute, that we ended up with national formulas for distribution. The end result of that, almost inevitably was that some local communities, wealthy, not needing any support, got substantial amounts of money over the years. The end result of that was to create some real frictions between communities, between States and local communities.

We may be required to start with a national formula of some kind, which guarantees to those local communities, which do not have, in turn, their own fiscal capacity, some help. We, then, ought to set up some mechanism that allows States to substitute for that national formula one which is much more reflective of the particular needs and responsibilities of that State.

In saying that, I recognize that we must bring into full partnership in that process those who represent the local communities in that State so that they have a role to play, and they understand what is going on. But I am confident that if we were to embark on a program like this that it would not be very many years before some, and ultimately quite a few States, found that there was a more beneficial way of distributing targeted assistance through their own formula than a nationally mandated formula.

I guess, ultimately, there is an importance in keeping States directly in this process, and that goes back to my fondness for the Constitution. Cities and counties are never mentioned in the Constitution——

Senator **Durenberger**. Line-item veto isn't either, is it?

Senator **Evans**. Pardon.

Senator **Durenberger**. Line-item veto isn't either.

Senator **Evans**. No; that is correct, and I do not suggest a constitutional line-item veto, statutory is all right.

But I think that in that case, it is important to recognize that every city, every county, every local governmental district is a creature of the State, and the State constitution which is located. I don't think that you can divorce those two ultimately and forever without some alternative or some safety valve where they can create their own future.

Senator **Durenberger**. We, of course, are very neutral on the issue. We are not neutral on the issue of need versus something else, but we are neutral on the issues that I am sure bother some people. Maybe George Voinovich, when he gets up here, will talk to us about this a little bit.

As you well know, in the intergovernmental system today, at the State and local levels, we have made great strides in improving the quality of decisionmaking. But we still have in this evolutionary period a conflict in the allocation of fiscal resources collected statewide between central cities, their suburbs, and rural communities, and how that tension plays out in the definition of need from State to State. I think this is the problem that is going to bother a lot of local government people.

Having identified that as a problem, it is not to exclude the States from a role in the process but rather to question what their role should be.

Senator **Evans**. That is right, and what we need to do is to try to devise a way in which the States and local communities can, together in a partnership fashion, devise a method or a formula to target fiscal assistance to those communities and localities where it is really needed.

I don't think that you can totally divorce that targeted fiscal assistance from other programs at the Federal, at the State, and even at the local level, programs which are oriented toward people or groups within those communities. You may have a poor community, and it needs some targeted fiscal assistance in a general way, but you have to take into account that in many ways the people within that community are eligible for and do receive many forms of help from other programs that are not specified to communities, but to people themselves.

Senator **Durenberger**. I know that you are not anxious to go to the Foreign Relations hearing, but I will end your excuse for staying here. Thank you very much.

Our next witness is our colleague from the House of Representatives, Representative Bob McEwen of Ohio. Bob is really the person who has been way out front on the issue of targeting general revenue sharing. He introduced a bill on this subject last year. He also sponsored a companion bill to targeted fiscal assistance in the House of Representatives, H.R. 4085.

Bob, we really appreciate your being here, particularly getting here early so that you could enjoy the previous testimony with us.

TESTIMONY OF HON. BOB McEWEN, U.S. REPRESENTATIVE FROM THE STATE OF OHIO

Representative **McEwen**. Thank you very much, Mr. Chairman. I especially want to thank you for holding these hearings and for doing it now because, as you know, as we are approaching the end of the fiscal year, and the continuing resolution facing us, if we intend to move to this program, it will be important that we have a record established, and that we have held hearings in this manner. For you to do it makes it possible for us to negotiate in the days that are approaching us very rapidly.

I also want to thank Jerry Fastrup, with the General Accounting Office, for his help in being able to formulate exactly the formulas that are so important in being able to explain this to our colleagues as we are approaching the deadline; to John Thomas and Tom Stanton of the Coalition to Save Revenue Sharing, and especially you, Mr. Chairman, for your legislation that has made it possible for us to come as far as we have thus far.

As you are well aware, a multitude of pressing concerns confront our Nation's communities, poverty, hunger, homelessness, increasing immigrant and refugee populations, drug abuse and drug-related as well as organized crime, and growing elderly population, often on fixed incomes.

Many community leaders have been successful in marshaling the resources to cope with these problems and other faced severe difficulties. Some cities have benefited from the more than 280,000 jobs that are being created in America every month now for the past 44 months. However, some have lagged behind.

Mr. Chairman, we have entered a new era in the 1980's, and we are witnessing the most dramatic changes ever in the Federal Government's relationship between our cities. Domestic programs launched under the Great Society of the 1960's and taken for granted in the seventies have now come under close scrutiny.

As you know, local governments have always been forced to be more self-reliant and efficient in the delivery of services—forced to work harder and smarter, and do more with less. These local leaders are now being called upon to take even more responsibility for the citizens that they serve in addition to the police and fire protection, social services for the elderly, youth and poor, health care, public transportation, rescue services, and all the rest.

In the past, they had the help, particularly from the most successful and innovative Federal aid program ever, the Federal revenue sharing. To a great extent, the dreams that many had for revenue sharing in 1972 have been fulfilled. It has done what it was designed to do.

Revenue sharing has been the bedrock of an historic effort to reform the Federal system. Moreover, it is the only program that goes practically to every local government in the county, including many of which receive no other form of Federal assistance.

However, if we accept the need to control Federal spending, which I do, this may be the wrong program to eliminate. In better budgetary circumstances, I would argue that this program be expanded, not eliminated.

I have been a long time supporter of general revenue sharing and a strong advocate of its confidence in local decisionmaking approach to federalism. But today, we are confronting a budgetary crisis. Our colleagues in the House and Senate are examining every program with the utmost scrutiny. We must develop new solutions to new problems. The Federal Government no longer can afford to share revenues it does not have with communities that have ample resources to meet their citizens' needs.

As the Federal Government reduces its overall role, however, it must assure that communities which face reduced Federal aid and growing service responsibilities have the fiscal capacity to meet these growing needs. We must assure that a new targeted revenue sharing program fulfill its fundamental role as a mechanism that mitigates the fiscal disparities, and does it in the most efficient manner possible. In my view, we must, in short, refashion revenue sharing as a fiscal safety net for our most needy communities.

The targeted fiscal assistance program which we have proposed will accomplish that very goal. This program will ensure that in our efforts to balance the budget, we do not ignore the very real and legitimate needs of our partners in the Federal system.

TFA will provide general purpose grants to local government, enabling mayors and local officials to determine the best uses for the funds. By utilizing appropriate measures of need and fiscal capacity, our program will target funds to those communities with the greatest public burden.

The effect of our legislative proposal will be to direct the greatest proportion of a State's allocation to poor and rural communities, particularly those that have above average tax effort relative to resources.

Mr. Chairman, some have asked: Can we afford this new program? I believe that we have no choice. All of us are well aware that we face a challenging period. The decisions we face are not easy ones. This is true at all levels of government.

However, the fiscal safety net, which you are proposing, is the governmental counterpart to the social safety net. We all accept that the Federal Government has a responsibility to provide a level of income security to individuals who are unable to provide for themselves. But it is also true that people are not randomly spread across the country.

They are often clustered in our poorest States and cities. Just as the Nation has a responsibility to establish a minimum floor of support below which our poorest citizens will not be allowed to fall, I believe it has a similar responsibility to assist those needy communities which are hardest pressed to provide a minimal level of basic public services. Even in these difficult times, I believe this must be a priority and purpose of the Federal Government.

Mr. Chairman, in my view, the Targeted Fiscal Assistance Program is the best viable option for the Congress to pursue in the current budget climate. S. 2037 and H.R. 4085 have bipartisan support within the House. Moreover, TFA provides an alternative to those who wish to correct the flaws in the current revenue sharing formula.

In addition, for those individuals who believe that we should reduce the funding level of general revenue sharing, the TFA formula would allow us to target the moneys more equitably than the current revenue sharing formula.

To underscore this point, Montgomery County, MD, and Newark, NJ, receive virtually the same allocation of revenue sharing funds. However, the per capita income of Montgomery County is approximately $15,000 or 150 percent above the State average, whereas the per capita income of Newark is approximately $7,500 or 50 percent below their State average.

If you reduce the GRS funding level by 50 percent without targeting the present program, the pain of that 50-percent reduction for those two communities is not the same. We need to correct the present revenue sharing formula and target the funds more effectively and equitably to address this situation.

I was delighted to observe that the mayor of Cleveland, who has served very ably as the chairman of the National League of Cities, an articulate spokesman on this issue, is here to testify. He has faced this issue in an admirable manner, and he is looked to across the Nation as a leader in this area, and certainly by those of us in the Congress who will be articulating it shortly.

Mr. Chairman, it is encouraging to see other Members of the Congress from both political parties supporting this targeting concept. However, we still have much work to do and it is my strong hope that we can facilitate this effort in the final days ahead.

I thank you for the opportunity to provide your subcommittee with my thoughts, and I again express my deep appreciation for your holding the hearing so essential for us to move to the final step of completion of this TFA effort.

Senator **Durenberger**. Bob, thank you very much.

In finance reconciliation yesterday, I raised the issue of general revenue sharing, and so forth, and the chairman said that he couldn't believe that the House would send us revenue-sharing reauthorization or an appropriation bill earmarking $4.6 billion for general revenue sharing. On the Senate side, we are going to wait and see what happens on a continuing resolution.

Do you have any idea of what the likelihood is of the House sending us a continuing resolution with revenue sharing in it?

Representative **McEwen**. Let me just say that your proposal, the targeted fiscal assistance that we are working on, has been warmly received in the Budget Committee and in the Government Operations Committee. However, in bargaining, it is essential to have the best cards available. Ted Weiss' bill, H.R. 1400, which provides for the continuation of the present program at the present level, has been approved by the committee and is awaiting rules, and it is expected to possibly be the vehicle in the continuing resolution that the House will use. If the House in the conferences chooses to reduce the funding or cut it in half, then all the greater need for our targeting fiscal assistance to be inserted at that point.

I repeat, we have received enthusiastic support for our position, but I believe that it will be the House legislation that will try to go the full $4.6 billion program, at least as we go to conference.

Senator **Durenberger**. Thank you again, very much, for your testimony. We appreciate it a lot.

Now another great Member of the House from our neighbor West Virginia, Harley Staggers. We welcome you here today, and I appreciate your being here to listen to this testimony. Congressman Staggers is the author of H.R. 4703, the Essential Services Payment to the Local Government Act, which would also target Federal aid to local communities, but it would do so in a slightly different way from that of targeted fiscal assistance.

Again, welcome, your statement will be made part of the record. You may proceed in any way you like.

TESTIMONY OF HON. HARLEY O. STAGGERS, JR., U.S. REPRESENTATIVE FROM THE STATE OF WEST VIRGINIA

Representative **Staggers**. Mr. Chairman, I do have a full statement,[1] and I would appreciate it being made part of the record. I will try to summarize it.

Senator **Durenberger**. Thank you, it will be.

Representative **Staggers**. I appreciated your opening statement. I think that it is a matter of smart spending, as you characterized it. I think that this is what we are all about today, and hopefully we will achieve that.

I want to thank you for the opportunity to be here, and I commend you for your leadership. I have long been a supporter of general revenue-sharing programs. In a district such as the Second District of West Virginia, the benefits of this type of financial assistance are readily apparent. In many communities in my district, revenue sharing comprises more than 25 percent of the jurisdiction's operating budget.

These communities are using this money for a variety of purposes, but the letters I receive tell me that the most pressing needs are related to public health and public safety. I have also been told that if the revenue-sharing program is eliminated so, too, will these services.

I have become increasingly concerned as I see efforts to eliminate this program, or to drastically reduce its funding, gain momentum. As the pressure to reduce domestic spending has increased, it has become evident that the likelihood of revenue sharing receiving status quo funding is probably slim. I believe, therefore, that the sensible approach in this situation is to look for an alternative to the current method of directing Federal assistance to local governments.

We need a program that will continue to assist those communities in need and that will do so at a reduced overall funding level.

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[1] See p. 42 for Representative Staggers' prepared statement.

Thus, essential service payments to local governments, H.R. 4703, was born.

We have had 14 years to study the effectiveness of the methods and formulas used to disburse funds under revenue sharing. We now have the opportunity to create an even better and fairer method of allocating funds. Not to seize this moment would be a testament to our lack of initiative and imagination.

Let me assure you that targeting does not favor one region of the country over another, nor does it pit urban against rural. It answers a need, the need of the low-income communities. Compared to current revenue sharing formulas, my essential service bill would give those communities with an average per capita income under 85 percent of U.S. average more than a 40-percent increase in grants, regardless of the degree of urbanization.

This is what a fiscal assistance program should do, and this is why targeting is so important.

Mr. Chairman, my full testimony outlines the similarities between your bill, S. 2037, targeted fiscal assistance, and the bill I have introduced, H.R. 4703, essential service payments. While they are similar in intent, H.R. 4703 does veer from the methods brought forth in your bill.

We have both sought to create a piece of legislation that reflects a simplified formula that measures need. My bill was not drafted to amend existing revenue sharing legislation. It is a separate piece of legislation that borrows heavily from the useful and productive aspects of revenue sharing, such as the provisions on budget hearings and antidiscrimination measures. But I have also sought to answer the criticisms of the revenue sharing program by increasing the accountability of such fiscal assistance program. Effective targeting is one of the best ways to be assured that the money allocated to local governments is well spent. I have gone several steps farther.

H.R. 4703, establishes three priority areas for which allocated money can be used under this program. The priority areas chosen are consistent with the title of the bill: they are services that are essential and that are usually the responsibility of the local government—public health, public safety, and public transportation.

Finally, I have called for additional study of the alternatives for direct Federal aid to local governments. The method of funding that I have proposed by introducing the essential services bill is much improved over the existing revenue sharing program, but it is not the final act in this play. We must be willing to change an existing program when research and reflection indicates that the change results in a more equitable and efficient method of distributing financial aid. This is true now for revenue sharing and it may be true in future years for essential services.

I am proud to join with you, Mr. Chairman, in this quest for a Targeted Assistance Program. The fact that this goal is supported in a bipartisan manner speaks to its appeal and its deliberation. Without targeting, Beverly, WV, would receive a per capita grant of $5.86 and Beverly Hills, CA, a per capita grant of $6.12. The absurdity of these numbers amplifies when you realize that Beverly's average per capita income is $6,645 and that Beverly Hills' average per capita is $28,488. Targeting eliminates the folly of numbers such as these and uses Federal money in a responsible, meaningful way.

Mr. Chairman, I again thank you for the honor of testifying before your committee today. I applaud your interest and work with this important topic. I am certain that with your leadership, the words spoken here today will gain the attention of our colleagues and will result in a program that will truly aid the neediest members of our American family.

Senator **DURENBERGER**. Thank you very much.

What about the question that I asked Dan about the role of the State?

Representative **STAGGERS**. Some of the added bureaucracy is not needed.

Senator **DURENBERGER**. Thank you very much.

Before we go to panel I, we are going to hear from Don Slater, the executive director of the Minnesota League of Cities.

TESTIMONY OF DONALD SLATER, EXECUTIVE DIRECTOR, MINNESOTA LEAGUE OF CITIES

Mr. **SLATER**. Mr. Chairman, it is a privilege to appear before this committee today to respond to your initiative for a new design for Federal assistance to local government. S. 2037, the Targeted Fiscal Assistance Act provides both a welcome response to differences in fiscal capacity of local units of government and recognition of the responsibility of the Federal Government to sustain the ability of local governments to provide essential services.

As you know, the spiral of declining farmland values and the subsequent increase in property tax delinquencies, combined with the loss of local businesses and employment, has crippled this Nation's agricultural areas. Problems of this kind are readily apparent throughout many regions, notably in our home State of Minnesota, as well as in other areas where undiversified local economies have slipped badly and led to serious local fiscal stress. That is especially evident in combination with declines in Federal programs for local government. Uncertainties and lack of stability in State aids have in the past resulted in limiting of local government resources to provide those services.

Last March, when city officials from Minnesota visited you and other members of the Minnesota congressional delegation here in Washington, we were buoyed by the announcement of your introduction of S. 2037 because it recognized the importance of continuing what in many cases is the only program of Federal assistance most cities in Minnesota receive. When discussing the outlines of your proposed Targeted Fiscal Assistance Program with our delegation of city officials, the president of the League of Minnesota Cities, Jim Miller, city manager of Minnetonka, a Twin Cities metro area community, was struck by the fact that the effect of eliminating general revenue sharing for many of the areas of the State amounted to a substantial decrease in total dollars as a percent of local taxes. That was not the case for his city, but he was quick to point out disparities in impact among Minnesota cities and counties.

Ranging from a loss of 2.81 percent in the city of Minnetonka, to a stunning 21.86 percent in Morrison County, it was clear that preservation of a program of direct Federal assistance to local government was a priority for Minnesota cities. What was equally clear was the realization that if Federal deficits continued to climb, the chances for current general revenue sharing would decline further.

City officials, whether in the prosperous metropolitan Twin Cities area, or in rural areas of greater Minnesota, recognize their responsibility to contribute to the reduction of that deficit. In fact there is a real reluctance on the part of those officials to insist that general revenue sharing be continued without some real progress on the Federal deficit. But that does not mean city officials are prepared to accept the go-it-alone approach that such abandonment of direct Federal aid appears to signify.

Instead, what I and other association directors hear city officials saying is: Give us the tools to do the job; give us the means by which we sustain the fiscal foundation of our community. We need to be able to rely on a revenue source that will not succumb either to the rapid decline in land and commercial property values that have already punctured our local funding or to the requirements imposed by other levels of government.

If I may, I would like to spend a few minutes detailing some of the more instructive details of the study completed for this subcommittee by Professor Stinson of the University of Minnesota. The report, "Governing The Heartland: Can Rural Communities Survive the Farm Crisis?" makes clear the policy implications of the decline in farm incomes and land values along with the precipitous rise in farm indebtedness.

As the study indicates, "at the local level, declining land values ultimately translate into declines in local assessed valuations—the cornerstone of most communities' property tax base." In Minnesota, that statement takes on special meaning when you realize that farmland makes up 78 percent of the local tax base of agricultural reporting districts studied by Professor Stinson.

We all understand that when farm incomes decline, Main Street business is hurt. Both the drop in assessed value of agricultural land and the subsequent decline in downtown commercial property values has had a telling effect on one city after another throughout nonmetropolitan areas of the State.

Whether you agree with the high end of Professor Stinson's analysis of the decline in off-farm income or are more comfortable with the lower estimate of that loss, it is equally apparent that a potentially long term demise of rural small town America is happening. In the southwestern crop reporting district studied, the loss is said to be anywhere from $23 million and 7.5 percent fewer commercial sector jobs to $47 million and 15 percent fewer commercial sector jobs.

What all this means to Minnesota cities is that budgetmaking becomes a serious concern when it is evident that shifting property tax burdens are bringing the impact of the weak agricultural economy home to the city residential and commercial property owners.

At the same time, the amount of Federal aid available to these same cities is disappearing as fast as the former wealth of the surrounding crop land. When we surveyed our member cities in 1984 to gauge their response to a potential loss of general revenue sharing, we quickly learned that for over 90 percent of the cities in Minnesota, GRS was the only Federal assistance those cities received. Most had never been awarded community development block grants. Fewer yet had been able to take advantage of wastewater treatment construction grants. A few others had benefited from housing bond programs and some limited economic development activity using tax-exempt financing. But there was a sense that those cities were relying on the combination of local revenues and State aid to local government to fund their budgets.

In the crop-reporting districts in Minnesota in the study conducted for this subcommittee, Federal aid totaled less than 10 percent of local government revenues in 1982, and Federal aid to State and local government has declined by 25 percent since then. Now projections indicate that Gramm-Rudman deficit reduction targets will result in a further decline of 20 percent in State/local assistance from the Federal Government.

We know, too, that the rapid loss of rural land values is not a temporary or short-term problem that will quickly be reversed. If anything is evident, the potential for declines of commercial land values in metropolitan area cities seems evident to some in the face of major changes in Federal real estate tax policy now under consideration in the tax reform conference committee.

At the 1986 League of Minnesota Cities conference in June, Prof. Philip Raup, former chair of the Department of Agricultural Economics at the University of Minnesota, pointed to indications of such a drop within the next few years.

What is particularly rewarding about the approach you have decided to take in proposing a new program of general purpose grants to local government is the attention paid to measurements of need and fiscal capacity. At a State level, this is a particularly difficult concept on which to reach consensus, but one which is fundamental to targeting funds to communities with the fewest resources but greatest needs. The heavy weighting of the population under 150 percent of the property levels signals special attention to those communities suffering from weakened local economies and loss of jobs.

What results from such a formulation is important for it makes major changes in the allocation of Federal aid. Of the 87 counties in Minnesota, 79 would see increased allocations ranging from less than 1 percent in southeastern Minnesota to 110 percent in the far northwestern part of the State. You can see by the details of the colored map on display here this morning that there is only one county where the allocation is eliminated.

For units within that county, however, the changes in allocation range from an increase of 32 percent in the city of Greenfield to a 100-percent loss of allocation for 23 cities where the per capita income far exceeds the State average. Among 44 units of government in Hennepin County, for instance, 4 cities would receive increased allotments while 40 cities would be allocated lower amounts than their 1985 GRS payments.

Those decreased allocations range from a loss of 7 percent in Loretto to the 100-percent reduction for cities such as Edina, Bloomington, Excelsior, St. Louis Park, and others where assessed value, relative tax effort, income, and other indexes provide some fiscal resources for public services.

While it is true that the allocation formula provides necessary funding for units with fewer resources, it is perhaps just as important to emphasize the realization that the extent to which local tax effort is recognized is also a measure of the relative significance of the services provided.

A matter of future consideration might be to examine whether a measure of minimum tax effort should be added to the intrastate allocation to emphasize the essential role local government must play in making needed services available to its citizens.

I appreciate the extraordinary efforts you and your staff have taken to bring forward this approach to meeting the challenge of restoring the Federal-local partnership in a manner that more clearly addresses the circumstances in which general purpose Federal grants can be of most benefit to local government in the 1980's.

Senator DURENBERGER. Thank you very much.

I have seen the map for most States in the Finance Committee. As I understand it, the white areas are those counties that are going to get less. The slashed areas are from 1 to 30 percent over revenue sharing on the average. The red counties are 30 percent on up.

Mr. SLATER. Yes.

Senator DURENBERGER. Now I am going to let you go to catch your plane.

Our next panel consists of Dr. Alvin D. Sokolow, professor at the University of California at Davis; Milton Morris, director of research and policy analysis at the Joint Center for Political Studies; and Richard Fogel, the director of Human Resources Division at the U.S. General Accounting Office, who recently completed a study on targeting fiscal assistance. He is accompanied by Paul Posner and Jerry Fastrup, also of the General Accounting Office.

We will begin with Dr. Sokolow.

TESTIMONY OF ALVIN D. SOKOLOW,[1] PROFESSOR OF POLITICAL SCIENCE, UNIVERSITY OF CALIFORNIA, DAVIS

Mr. SOKOLOW. Thank you for the invitation to appear before your subcommittee. My work as a researcher and teacher over the years has concentrated on the issues and processes of small town and rural governments. This past year, I have been here in Washington working with the National Association of Towns and Townships, I have also been affiliated with the Economic Research Service of the U.S. Department of Agriculture in connection with a study of rural government capacity. However, my remarks this morning are personal and do not represent the positions of either of these organizations.

I am pleased to offer these comments on S. 2037, the Targeted Fiscal Assistance Act. I will first comment on the proposal itself and then discuss more generally the involvement of rural and other small local governments in Federal programs.

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[1] See p. 54 for Mr. Sokolow's prepared statement.

Targeted fiscal assistance, as a method for retaining a program of general Federal assistance to local governments, is a proposal that improves considerably the targeting of funds to less wealthy places over the present GRS program. It performs a good deed by removing the title of general revenue sharing a misleading and politically unfortunate misnomer, and replacing it with the more appropriate and accurate designation of targeted fiscal assistance.

I must take issue, however, with two components of the TFA formula, which I think would probably eliminate the participation of large numbers of quite small local governments in the program. One is the elimination of the 20 percent floor currently in the revenue sharing program, and the other is the proposed element that would eliminate TFA payments under $500 to local governments.

The staff report refers to "paper governments" which provide little in the way of services. I am not sure what that means, but I do know that there are thousands of quite tiny and small governments scattered around the countryside which are very, very important to the people whom they serve. These are small places. We do not really understand, and we do not have the full measure of their importance, by looking merely at taxes and budgets, simply because they do things quite inexpensively. They are important political entities, as well as providers of services, and they function to a large extent on the volunteer labor of their officials and their citizens. About 1,800 general purpose governments now receive less than $500 annually from GRS. By eliminating these units from the TFA program, you remove general fiscal assistance for governments serving more than 100,000 small-town residents.

Other than that, I applaud the proposal. I think that it is an excellent effort to continue Federal fiscal assistance, to local governments, one that gives that concept a much firmer ground.

Let me turn briefly to the broader issue of how TFA relates to the role of small local governments and the Federal system. The major virtue of TFA, it seems to me, is that it retains a program of general Federal fiscal aid for the vast majority of local governments in the Nation. As you and others have pointed out, with the elimination of revenue sharing most local general purpose governments would be shut off completely from the Federal aid system. In my estimate is that without revenue sharing, or a similar form of general fiscal assistance, only about 5,000 of 36,000 small general purpose governments around the country will continue to receive Federal assistance for any one particular year. On the other hand, about 85 percent of all town, township, municipal and county governments in communities under 25,000 population would be cut off entirely from Federal aid.

Even if the administration's budget plans to eliminate such programs as Farmers Home loans and grants, and wastewater construction aid, are not implemented, there will still be a tremendous reduction in the number of smaller governments which receive fiscal aid.

There is an additional rationale for maintaining fiscal aid to such small places besides the fiscal disparity reason. That is the fact that even very small governments continue to carry out a number of intergovernmental obligations and mandates, many as a direct result of congressional, executive or judicial action. Federal fiscal assistance is a small way of partially compensating these small governments for the vital role that they play in carrying out their functions.

Again, thank you for the opportunity to make these observations.

Senator **DURENBERGER**. Thank you very much.

Mr. Morris.

TESTIMONY OF MILTON MORRIS,[1] DIRECTOR, RESEARCH AND POLICY ANALYSIS, JOINT CENTER FOR POLITICAL ANALYSIS

Mr. **MORRIS**. Thank you, Mr. Chairman.

I am very grateful for the opportunity to comment on S. 2037, Targeted Fiscal Assistance Act of 1986. I would like to congratulate you on your efforts, and the efforts of your cosponsors.

I have been more than a casual observer of revenue sharing. I must confess at the outset that I am one of those who has mixed views of revenue sharing. I applaud what you propose to do with the Targeted Fiscal Assistance Act because it indeed responds to almost all of the concerns I have had with the revenue sharing program.

I am not one of those who hopes that general revenue sharing will be reenacted, but if it fails then we should turn to that and support what I consider to be a major effort in improving what we had.

Looking at Washington in the 1980's, it is very clear to me that Federal aid to local governments is no longer popular. There is a very broad impression that State and local governments are doing very well, that the urban crisis about which many of us worried a decade ago has abated, and that the fiscal pressures are now confined to the Federal Government and the Federal budget.

These impressions are behind the cuts in some block grants and the move to eliminate revenue sharing. The reality, however, is quite different. Many State and local governments are better off today than they were several years ago, but a number of others have come upon hard times.

Your opening remarks emphasized the plight of farm States. Farm States are perhaps the newest addition to the list of severely pressured States and local governments, but they are, of course, not the only ones. We still have a large number of urban bases and central cities that have not yet experienced anything called a recovery. They are still experiencing depression with respect to massive unemployment, deteriorating infrastructures, and a mounting rate of human needs.

It is interesting to observe that just at the time when we are talking about reducing the Federal contribution to State and local governments, we are discovering with some alarm the growth of massive urban populations mired in poverty. I am concerned that this kind of population cannot be allowed to grow and to fester in our midst, and their plight cannot be eliminated by means other than involvement of the State and local governments.

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[1] See p. 59 for Mr. Morris' prepared statement.

With respect to the cost, I have not been able to think of an inexpensive way of meeting the objectives proposed by the elimination of revenue sharing. There are many units of Government involved, and too small an increment of assistance in my view is absolutely wasted.

I, therefore, think that the modest proposal in this bill represents an absolute minimum that can be reasonably allocated. The aspiration, if anything, should be to build from here, rather than to go down. I applaud the features of the bill that seek to target assistance to need. I would be a bit more comfortable if, from our cursory examination of the formula, it treated the larger urban places evenhandedly as compared to agricultural areas of the country.

Maybe my initial observation about the outcome of that formula will be corrected as I look more closely at it. Clearly, however, the attempt in applying the formula so that Federal assistance addresses needs is something that is to be applauded.

I should also observe that while there has been a problem with simply sharing minimum jurisdictions, there have been problems in directing Federal assistance to needy places and needy individuals within localities. This bill does not speak to that issue at all.

We have had the experience of Federal assistance for the needy in those places but never reach the needy people within those places. Because an objective of this general revenue sharing is to provide States and localities the flexibility to meet their needs, it is probably very difficult to remedy that.

I do think, however, it is something that can and should be addressed. One suggestion I have for addressing that is to at least significantly increase or improve or strengthen or whatever the statement of objectives in this legislation so that the intention of Congress is unambiguous and can be used as a clearer basis for guiding the administration of programs.

Finally, I should comment on one of the longstanding fears of many of us about revenue-sharing programs. Frankly, there has been the fear that the State and local governments are basking in social conservatism, egregious insensitivity, and there have been times when we have had suspicions about what happened to Federal funds allocated to these governments without significant strings attached.

One of the impressive developments of the last decade, I think, is that more and more States and local governments have shed this kind of image, partly in response to strong Federal efforts over the years, and increased opportunities for minorities to participate at these levels, and the improved caliber of State and local government leadership, we are seeing most of these fears disappear. I think that this is an important point, the quality of State and local government is improving rapidly.

We can also say, in several important areas of social policy, State and local governments are rapidly assuming leadership and devising innovative and effective strategies for meeting human needs. This development is something that federalism should encourage.

The bill before you is a particularly appropriate and timely acknowledgement of this important development.

Thank you.

Senator **Durenberger**. Thank you very much.

Now we will hear from Dick Fogel.

TESTIMONY OF RICHARD L. FOGEL,[1] DIRECTOR, HUMAN RESOURCES DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY PAUL POSNER AND JERRY FASTRUP

Mr. FOGEL. Thank you, Mr. Chairman.

Paul Posner, Jerry Fastrup, and I are pleased to be here to discuss our report issued to you today on how targeting fiscal assistance could reduce fiscal disparities among local governments.

There is no doubt that fiscal disparity among our Nation's communities is substantial. We analyzed tax and income data for 38,880 units of local government in 3,134 counties across the United States. The data showed that nationwide cities, counties and townships collected $264 per person in fiscal year 1983.

However, local governments in the Nation's wealthiest counties raised nearly $338 per person compared to $150 per person in the poorest counties. Because rural areas tend to have lower income, some of this is due to urban-rural differences.

However, disparities are prevalent within each group. For example, for the 40 percent of the U.S. population living in the most rural counties, those with the lowest income consistently devoted a greater percentage of their income to financing public services compared to their higher income neighbors. But, this higher effort yielded nearly 40 percent less revenue to meet public service needs.

For highly urbanized counties, we compared the revenue-raising disparities between central cities and their suburbs for the 20 largest metropolitan areas. Chart 1 [2] shows a suburban revenue raising advantage for 18 of the 20 largest metropolitan areas. For example, Cleveland's suburbs can raise $1.58 for each tax dollar collected by the central city. At the other end, the suburbs of San Diego can raise only 98 cents per tax dollar collected by the city. With this background, I would like to turn to how fiscal disparities can be reduced.

Targeting funds to lower income communities will reduce the disparities I have just described. The more a given level of funding is targeted to low-income communities the greater will be the reduction in disparities. Alternatively, more targeting can achieve a given level of disparity reduction at lower cost.

For example, if funding is targeted only to low-income communities, all of it contributes to reducing fiscal disparities. On the other hand, if some funding is provided to high-income communities, funding of low-income areas must be increased that much more to achieve a given disparity reduction. This in turn raises the total cost of disparity reduction.

This chart 2 shows the cost of disparity reduction based on three different targeting policies. Column 1 represents the most targeted fiscal assistance formula, limiting eligibility to communities with incomes below the State's average income, about half the U.S. population. Column 2 represents the formula used in your targeted fiscal assistance bill which provides funding for communities with incomes up to 125 percent of the State's average, about 90 percent of the U.S. population.

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[1] See p. 67 for Mr. Fogel's prepared statement with attachements.

[2] Charts referred to in testimony may be found attached to prepared statement.

Finally, column 3 represents the least targeted formula, providing funding for communities with incomes up to 150 percent of the State's average, about 99 percent of the U.S. population.

To provide a basis of comparison, I would like to first note that the general revenue-sharing program has provided about a 15-percent reduction in disparities at a $4.6 billion funding level, as identified in column 3.

Column 2, which reflects the formula used in your bill, shows that the same 15-percent disparity reduction can be achieved with $2.4 billion, almost half the revenue sharing funding level. Column 2 also shows that $4.7 billion, about the same funding level as revenue sharing, could double the disparity reduction to 30 percent.

Finally, I would like to point out that even greater targeting can substantially increase the amount of disparity reduction that could be realized. Column 1 shows that the cost of totally eliminating disparities, just for communities with below average income, would be achieved with $3.9 billion

Obviously, a key question will be how will greater targeting affect different communities? I might mention, as a parenthetical note, that we will be glad to provide computer runs for any Member of the Congress who would like to see how their State or localities are affected by this. I am not sure that we want to draw maps.

As I mentioned earlier, rural counties tend to have lower incomes compared to more urban counties. Consequently, increased targeting will allocate more funds to rural areas than the general revenue sharing program. Indeed, the counties classified as 100 percent rural would receive almost 50 percent more funding under targeted fiscal assistance than they would under the general revenue sharing program with the same funding level.

At the opposite end of the urban/rural spectrum, targeted fiscal assistance payments to local governments in those counties classified as 100 percent urban would be 94 percent of the revenue sharing payment. Chart 3 shows this trend for counties.

The chart indicates that average payments to counties with 25 percent or more rural residents would be greater under the proposed targeted fiscal assistance formula in S. 2037. Conversely, counties with 75 percent or more urban residents would receive a lower payment.

While on the whole targeted fiscal assistance shifts funding to rural communities, it also targets more aid to low-income central cities in the largest metropolitan areas, as opposed to those with relatively high incomes. Chart 4 ranks selected large cities according to their per capita incomes and compares payments they would receive under targeted fiscal assistance with what they would receive under the existing revenue sharing program. The lowest income cities would all receive increased funding while the highest income cities would get less.

Mr. Chairman, this concludes my statement. I would be pleased to respond to questions.

Senator **Durenberger**. Thank you, Dick, for the usual excellent job out of the Human Resources Division.

Dan Evans made the argument earlier that the Federal Government provides national money and resources to people who live in places very large and very small. He also indicated that State government does very much the same sort of thing.

The notion of targeted fiscal assistance, our version of it, is a national effort to alleviate fiscal disparities. And that was his recommendation, between places, which places also have to meet the needs of these people.

Why shouldn't the national government try to confine its efforts in this fiscal disparity business, targeting to some level of larger places which to some degree already take care of people's needs. This would leave to the State the concomittant role of finding a more efficient or more effective means of alleviating fiscal disparities for smaller places?

Mr. **Sokolow.** It is a loaded question with all sorts of ramifications. A short answer goes something like this, at least from my point of view. No. 1, these small governments are part of the national system as well as the larger places. They are involved in numerous Federal obligations and mandates. They are carrying out clean water, civil rights, and other requirements. They are as much a part of the American system of Federal and intergovernmental relations as are the larger governments.

No. 2, they serve substantial numbers of people. Individually, they may be tiny places of a few hundred population or even less, but collectively they are a major part of the Nation's public sector. Whatever level of size we use, we still have millions of people being served by smaller places; close to 70 million alone in communities under 25,000 population.

No. 3, I would really not want to leave it up to the discretion of the States to take care of the so-called "residual" parts of the Nation, what is left over after you take care of the metropolitan areas. There are tremendous variations in State policy and disposition here. I think that it is chancy to assume that the smaller communities automatically will be assisted by their States. I would prefer to see them included in a national program because they are very much a part of our Nation.

Senator **Durenberger.** Milt, do you have any thoughts on that suggestion that we find a way to include the States in here?

Mr. **Morris.** I thought about that, Senator. I am a bit torn about it because I share the concern for rural places, those small places that come to comprise a substantial segment of the population when put together. I also share a concern for an attempt to be so expansive as to reach all areas of need.

I have not quite resolved that problem. I do recall that in the block grant programs there was a mechanism by which funding went to the States, and the States were then directed by some formula to provide assistance to places that were not direct beneficiaries under the Federal grant.

I would prefer to see something of that sort of mechanism employed.

Senator **Durenberger.** Dick, we use population, tax effort, and income as our need proxies. Do you have something better or additional to recommend to us?

Mr. FOGEL. We think some marginal improvements can be made, and I would like to let Jerry Fastrup, who has been our expert in designing these formulas, to expand on that. Let me just make a comment, if I could, on that last point.

I think that one of the things that would be difficult to do with those small communities gets to how you would measure capacity and need. It is very difficult to do it with communities where we keep limited statistics. I think having a lot of those smaller communities would make it more difficult to allocate funding.

Mr. FASTRUP. I would also like to point out that in the past, the General Accounting Office did a major study on participation of townships in New England counties in revenue sharing back in 1976. In that report, we noted that the fundamental judgment made when revenue sharing was passed was that it was intended primarily for general purpose local governments, that is for those local governments that provide the broad array of public services needed by local communities.

When we went out and investigated the distribution of funds, we found that a large number of Midwestern townships and the New England counties do not provide the broad array of public services, that they are more akin to special purpose districts, rather than general purpose governments. On those grounds, we, in the past, have recommended that the 20-percent minimum payment in the Revenue Sharing Program be eliminated. The effect of that 20 percent minimum payment was to allocate money to those, in effect, special purpose governments that statistically are classified as general purpose local governments, and provides them funding way beyond their fiscal responsibilities. This, of course, comes at the expense of the county governments that are primarily responsible for the delivery of services in many of these rural areas.

Another thing to be added to that is that eliminating the minimum 20 percent payment is not eliminating payments to rural areas. It is shuffling that money from a township government to the county government in the rural area that is also providing the services. There is not any kind of a significant shift of funds away from rural toward urban areas as a result of eliminating that minimum payment.

Senator DURENBERGER. Al, do you have a reaction to that?

Mr. SOKOLOW. I would agree only in part. I recall the 1976 report.

Senator DURENBERGER. Remember that this is the GAO now.

Mr. SOKOLOW. I respect the GAO.

Senator DURENBERGER. They know what they are doing. [Laughter.]

Mr. SOKOLOW. I respect the GAO, but it doesn't prevent me from taking issue with some of their analyses. I recall that 1976 study, it is 10 years old. There have been changes in many rural jurisdictions around the country.

I think the problem here is in defining what is general purpose and what is not general purpose, and you don't get at it by looking at budgets entirely, especially when you consider, in the rural areas, the road function that is the major function, not the only function, but the major function of many townships in the Dakotas, in the Plain States, Illinois, and other Midwestern States. It is not the only function, but the single most important function in terms of expenditure. That means a great deal to the people in those communities who receive few other local public services. They don't receive municipal services because they don't need them, but their access to the outside world, the use of the local transportation system for marketing their products, if they are in farming, that is as critical to them as, let's say, a range of more extensive municipal services would be critical to people living in a large urban setting.

You just can't measure the significance of local government in any community by saying, aha, they only do this function but not that one. You don't understand what the meaning of particular services is to citizens in especially local and isolated communities by examining only quantitative indicators.

Senator **Durenberger**. That may be a matter of definition. It may not be precise. Would you argue, though, that in the intergovernmental system the function of small places, and in particular township governments, of which I am always a great champion, have not expanded in the same way that, let's say, county governments have. Throughout this period of categorical federalism, we recognized all those needs and funded them out of Washington, and then sent mandates back saying, "now we want you to do sewers, now we want you to do social services, and now we want you to do public health." A lot of that responsibility got dumped on counties. The mandates remain, but we continue to withdraw the financing necessary to meet these regulations. It is rural counties that are burdened with these sort of add-on responsibilities.

I am wondering where the really small places have taken on added responsibilities and where they are not protected in some way by the county of which they are a part.

Mr. **Sokolow**. This varies greatly from State to State, and county to county, and community to community, but I think one of the striking developments since the small communities became involved in Federal programs, aid and mandates, in the early 1970's and late 1960's, is that their services have expanded enormously. They are doing things now that they were not doing 15 or 20 years ago—public transportation as well as traditional road and bridge programs, senior citizens, and other social service programs, park and recreation programs.

I wish the Bureau of the Census collected better data on this because I think we can demonstrate how Federal grants and mandates have greatly improved the quality and the extent of public services and public facilities in rural communities, and also stimulated rural local jurisdictions, townships, as well as counties, to take on a lot more.

This varies greatly, of course, from community to community. But the data I have, limited as it may be, suggests that this is perhaps the most exciting and profound thing to have ever happened to the public sector in small communities—a major expansion of these responsibilities since the 1970's.

Mr. **Fogel**. Senator, to get back to your specific question. For example, at the intrastate level, the population is still the primary indicator of the local and State spending needs, but we think that some marginal improvements could be made by incorporating such measures associated with higher needs, such as unemployment, poverty level, percent of urbanization, and so forth.

The data limitations present, we believe, represent some very serious obstacles to measuring these needs. We really think that some more study and analysis needs to be done to assess the proper way and data sources required to measure it. We believe there can be some marginal improvements, but we are not prepared right now to be able to effectively factor those in any formulas.

Senator **Durenberger**. Jerry.

Mr. **Fastrup**. One additional point I wanted to make is that the method by which revenue sharing allocates funds to localities takes into account the service responsibility to those localities by the tax effort factor. Communities raising taxes amounting to something like $2 and $3 per capita, have very low tax effort factors and therefore receive very small payments.

It should be recognized that a lot of townships governments do provide substantial services that are not financed by them raising the revenues, but by the county raising the revenues and passing them to the township through intergovernmental transfers.

What this formula does is respect that funding mechanism by targeting the money to the governments who raise it, and they make the decision as to whether or not they want to transfer the funds to even lower levels of Government to carry out specific functions.

So the philosophy behind the existing revenue sharing formula and the formula in your bill is to target the money to those governments who raise it, and leaves the decision to them as to how to further allocate that money to meet the needs of localities. This is a point of information as to how the current formula and how your formula responds to the division of public service responsibilities among the different levels of Government.

One additional point I would like to add is, it is in fact true, from all of the data that I have seen, that population does not adequately reflect differences in public service needs. A draft report recently finished by the Department of the Treasury's Office of State and Local Finance undertook to measure the differences in public service needs across the States, and they found that those needs do differ by a factor of about plus or minus 10 percent. The high need States, based on average spending levels, are about 10 percent above the national average, where the low needs States are about 10 percent below the national average.

There is variation there, but the important lesson to be learned from these numbers is that States differ much more in their fiscal capacity, their ability to raise revenue, than they do in their public service needs. They are much more uniform with respect to needs and more diverse in terms of their revenue raising capacity.

Therefore, any change in the formula that will make the distribution of funds more responsive to fiscal capacity differences will be doing the most to attack the problem of leveling out existing fiscal disparities.

Senator **Durenberger**. Very good.

Gentlemen, thank you all very much for the efforts you have put into your testimony today. We appreciate it a great deal.

We will now hear from our final two witnesses, Mayor George Voinovich, of Cleveland, OH, former president of the National League of Cities and a real leader in federalism issues among the Nation's mayors. George can give us a first-hand account of the fiscal disparities that exist between central cities and their suburbs, and relay the importance of Federal targeting during this period of Federal fiscal restraint.

Richard Hartman is here on behalf of the National Association of Regional Councils. Dick will be talking about the role of targeted assistance and establishing a safety net for the needy rural communities.

Both of your statements, gentlemen, will be made part of the hearing record. We will proceed with George Voinovich.

TESTIMONY OF HON. GEORGE VOINOVICH,[1] MAYOR OF THE CITY OF CLEVELAND, OH

Mayor VOINOVICH. Thank you, Mr. Chairman.

I would like to compliment you for your continued leadership in recognizing the need for a relationship between the Federal Government and local government dealing with local problems.

I am glad to have this opportunity to discuss with you the vital need for continuation of a fiscal assistance program. The repeated assaults on Federal assistance to cities and the uncertainty over the budget process has resulted in budget gridlock for those who must provide basic services for their citizens.

Local elected officials are faced with setting their local budgets while trying to predict the outcome and implications of Gramm-Rudman, continuing resolutions, deferrals and rescissions, and retroactive tax changes.

We are already worried right now about what is going to happen in the next couple of months because of the changes in terms of the estimated deficit that we are going to have in 1987.

Questions over the Federal budget have forced cities into the difficult position of deciding what programs to cut and what taxes will be necessary to maintain minimal levels of assistance to our citizens.

In the past general revenue sharing has helped in meeting the needs of fiscally pressed cities. I think in light of the cutbacks in other programs, and the uneven economic recovery that we see in this country, and more recently the impact of the declining economy in those areas that are relying upon the oil business and the farm business, this program is as vital today as it has ever been in this country's history.

A recent financial survey by the National League of Cities found that more than half of the cities in this country today expect their expenditures are going to exceed their revenues, whereas in 1984, only 24 percent were in that position.

The drop in Federal assistance has reached such proportions that States no longer have the resources to help cities deal with the financial shortfall. Federal assistance, as you know, to local governments has declined well over 50 percent since 1981.

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[1] See p. 76 for Mayor Voinovich's prepared statement.

In Cleveland, for example, we received $39 million in CETA money in 1979. Under the new JTPA Program, we are now receiving $6.5 million. Our general revenue sharing allocation in 1981 totaled $14.1 million, and we received $39 million through the Community Development Block Grant Program. Today, we are receiving $10.5 million in revenue sharing and $24 million for the Community Development Block Grant Program.

Many cities are also operating with a lot less employees. For example, today, in Cleveland, I am running the city with some 800 less people than I did in 1979. We have increased local taxes approximately 50 percent. We are doing more with less. We are working harder and smarter. So the allegation that there is fat in many local political subdivisions in this country, I think, is not reflective of reality.

Federal budget reduction efforts are likely to force additional cuts in block grants and other programs. As I said, in the past, we have relied upon revenue sharing to make up for those cuts in other programs. General revenue sharing has been the backstop that we have needed to keep going.

I think you know also that the loss of revenue sharing would disproportionately hurt cities and towns in the worst fiscal condition. A report from the NCL recently indicated that some 38 percent of city officials responding to our survey listed the elimination of revenue sharing as having a major adverse impact on their cities.

Federal budget cuts have impacted large and small cities alike. I am glad to know that you have received testimony about our smaller cities and our rural areas. A recent report by your subcommittee detailed the devastating effect of Federal cuts on our rural areas. I think that rural areas could be hit even harder than urban cities should revenue sharing be eliminated because of the lack of resources available to them.

I was shocked, for example, when I heard from city officials in Columbia, SC, that they did a survey on what it would take locally to compensate for the loss of revenue sharing, and found they would have to increase property taxes, if they could do it, by 38 percent.

General revenue sharing has been the single largest program of Federal aid to local governments. It has been the most comprehensive of all Federal aid programs, providing funds to cities of all sizes and in all regions of the country.

I think that it is important that we point out that even under the present formula, general revenue sharing has been targeted. But I think we must also recognize that with the economic pressures that are being brought to bear upon you today, what we need to do is look at the dollars that we are spending on urban programs, and target them more effectively than we have before.

I know that targeting these funds more effectively will be difficult, because in order to get the votes in the past you have had to use a shotgun approach to participation in the program. But I still think your proposal, targeted fiscal assistance, makes a great deal of sense. With TFA you can present to your colleagues a plan that will cut the cost of this program in half, while getting funds to the areas that really need them.

In a great country like ours, and even within a city like Cleveland, there are disparities among various areas. In some instances, we have to spend more on those areas that are in the greatest need. I think the sooner Congress wakes up to that fact and realizes that there is a need for these targeted programs to deal with the fiscal disparities that we have, that we need to target those dollars in order to cut back on costs, the better off the country is going to be.

I support your approach. It makes sense. I think that it should be looked at in other areas of Federal urban spending.

Senator DURENBERGER. Thank you very much.

Dick.

TESTIMONY OF RICHARD C. HARTMAN,[1] EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF REGIONAL COUNCILS

Mr. HARTMAN. Thank you, sir.

I am very honored to be with the mayor at the same table. Jon Howes, who is our president, was very displeased that he could not be here today because he has great respect for the mayor, and he has worked with him on the NLC board.

One other thing, Senator, it is an opportunity to thank you as the mayor did. You are one of the few people up here who continues to have an interest in local and intergovernmental issues. We very much appreciate that.

I will summarize very quickly what points we wanted to make. The National Association of Regional Councils is an organization of regional groupings of local officials, city, county, town. In your State, we have the Regional Planning Agencies and the Metropolitican Council, which is one of the foremost regional organizations in the country.

We continue to support the reauthorization of general revenue sharing with our sister and brother public interest groups, and that is a high priority. On the other hand, we fully support your effort at targeted fiscal assistance. We feel that this is a fundamental responsibility that our National Government has in our federal system.

In all the New Federalism, we have lost the principle and role of the National Government, to assist those partners in the federal system who have less resources and less ability.

I think the point is brought home to all of us as we travel around the country that many of our rural areas and many of the communities in our large metropolitan areas are suffering substantially, not just because of economic distress, but because of the substantial reductions in Federal assistance.

We feel that the targeted fiscal assistance approach makes a lot of sense and embodies the fundamental principles that were laid down by our forefathers in the Federal compact.

We have a couple of specific points to make. We believe the reauthorization of general revenue sharing is imperative, but targeted fiscal assistance should be added to GRS. The other thing that we would suggest is based on the fact that more than ever local governments do make make up regional communities and regional economic systems, like the Twin Cities Metropolitan Area in Minnesota. We would hope that in some way there could be incentives put into targeted fiscal assistance to give more benefit or encouragement to local governments to do joint projects and joint activities in that they might get a bonus, or there might be some funds set aside to encourage joint efforts in rural and metropolitan communities.

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[1] See p. 81 for Mr. Hartman's prepared statement.

We also support many of the comments made here, particularly Don Slater's comment in that we have deep concern about the growing disparity and polarity all over the country between our rural communities and our metropolitan communities. We agree that is a very substantial problem in our country.

Finally, relative to the States and their involvement, it has always been our association's position that if the States are involved in any Federal program, a minimum requirement should be that they put in additional resources. If you consider the States playing any role, we feel that a minimum requirement would be for them to add money to the Federal funds being distributed to those communities with greatest need.

Thank you, sir.

Senator **Durenberger**. Thank you both very much.

I wonder if you wouldn't try to address the issue of how are we going to target some part of Federal assistance to local communities, to the needs in those communities?

George, you pointed out the analogy of using a rifle versus a shotgun for distributing aid. I have noticed, however, that you can't be a leader without some followers, and I can't find the followers out there at the local government level right now.

We tried to target revenue sharing the last time the program was reauthorized. We were attacked by all of the national associations of local governments for our efforts. Now, my general feeling is that a lot of your colleagues support the notion of targeting, but nobody wants to take a stand until sometime after general revenue sharing has proven to be dead. I think that this is what is going on out there.

Maybe you can be of help to me on this matter. The Congressmen who testified here earlier said that we ought to have TFA, or something similar, sitting here on the side table, so that it could be slipped in if GRS fails to pass in the House. But we can't take that direction here because the Senate is not going to support general revenue sharing, and the President will not support the program either.

Even if the House does it, it looks like we are going to be left with nothing here.

Mayor **Voinovich**. First of all, I want to explain that I am here as the mayor of the city of Cleveland, and I am not expounding the position of the National League of Cities.

I think anyone who is relatively sophisticated understands that revenue sharing is in deep trouble. I suspect that if you did a poll of local government officials around this country, most of them would tell you that the program is "dead as a doornail." As a result, I think no one expects to get receive any more assistance from it.

So I think you start off with the fact that it is gone. That is the environment that we are in.

The second, and I think a commonsense approach, is that there are areas of this country that are in need of help, and regardless of whether some places would initially receive benefits or not, they should admit that other areas have a greater need. There is a role for the Federal Government to play. This program gets to those areas that really need it the most. It conserves dollars, which everyone is interested in doing, and over time as the economy of various places improved, the benefits would spread.

I think that it is an enlightened way of dealing with the situation, that is, there will be a beginning, and there will be an end, depending on what is taking place in other areas of the country.

I think your colleagues in the oil-producing States now are starting to realize that these programs, that they didn't think too much of a couple of years ago, may be important to get them through this period of reduced oil income.

I think there is another approach that ought to be used down here. It is; look, we have a great country. A lot of what is happening in various places in this country is not due to anything that they have done to themselves. We are in a worldwide economy. The Nation has become more interdependent. As a great nation, we should reach out and try to at least provide some kind of a safety net for distressed areas so that they can get through this difficult period of time. Maybe you are not going to get something this time, but maybe 2 years from now, or 3 years from now, you will be getting something out.

This is a sensible approach to dealing with an obligation that this Government of ours has.

Senator DURENBERGER. Would you like to add anything?

Mr. HARTMAN. No. As a staff person, we would subscribe to the mayor's comments and your assessment.

Senator DURENBERGER. I don't know the degree to which the chart points that out, and I won't ask Jerry to come back up, but you can see that the two biggest losers on there are Houston and Dallas. As long as I have been here, I have been carrying on a very friendly battle with my colleague on the Finance Committee from Texas over the use of the term "fiscal capacity."

I understand that Senator Bentsen, even as we speak, is working on some kind of targeted fiscal assistance bill, but because he comes from a State that doesn't work a lot on tax effort he is very wary about addressing that issue.

Do you find that to be true among your colleagues in the League of Cities? In other words, are they nervous when someone starts talking about fiscal disparities and testing the capacity of Cleveland versus Dallas to tax itself? All of a sudden, do the people from the States that are not taxing themselves quite the same as others pull back? Does that seem to be a problem among your colleagues as well?

Mayor VOINOVICH. I must tell you that in all my 7 years in the National League of Cities, that has never been brought to the table. I suspect that if you have somebody in the room who started talking about it, it might make them a little uncomfortable because

I think some recognize that there is more that they could be doing for themselves.

I think, very frankly, the reason why you are not getting such a big cry out of so many cities in this country in regard to the loss of revenue sharing, and I am being very candid with you, is because of the fact that a lot of them just figure they can get along without it. Maybe they figure they can get a little bit more, locally, than they have in the past, now that there is the need.

In Cleveland, there has long been that need, and we have reached our limit. When I tell people that I have been to the voters six times in 6 years for a tax increase, and got beaten down four out of the six times, they think that I am crazy. The fact is that there is a prevailing sense that some cities could be doing more to help themselves than they are doing now. And I don't think many cities have faced up to this situation.

Mr. HARTMAN. I think the issue, Senator, is more in the context of the mayor and the suburban communities in northeast Ohio. It is much more sensitive in the well to do suburbs like here in the Washington metropolitan area, Montgomery and Fairfax Counties assisting the District and other less prosperous jurisdictions in some manner, as you have done in the Metropolitan Twin-Cities area to help those with less resources that live in that metropolitan area. The city of Cleveland is the hub or the heart of that metropolitan area, those suburban communities who have more wealth have little interest in assisting the central city. I think that this is the controversy rather than it is between Cleveland and Houston on any formula approach.

Senator DURENBERGER. Very good.

Noon having arrived, I wish to express my appreciation to all the witnesses today, and we will now adjourn the hearing.

I ask that my closing statement be printed in the hearing.

[Senator Durenberger's closing statement follows:]

CLOSING STATEMENT OF SENATOR DURENBERGER

I want to take this opportunity to thank our witnesses today. The genuine concern and deep interest which you have all displayed over this issue illustrates the importance of federal revenues to many local governments.

It has become increasingly important under the continual cuts in federal grant-in-aid programs to safeguard general purpose revenues which local governments rely on—more than any other intergovernmental grant—to provide vital public service. As today's testimony supports, the General Revenue Sharing Program can be improved by targeting its funds to needy communities with low incomes and high service demands.

Targeting Federal funds will not only benefit local governments by lessening the fiscal hardships of rural communities and depressed urban areas but also assist the budget conscious federal government by going further on fewer dollars. The federal government can no longer afford to share its revenues with wealthy cities and counties. A targeting program such as S. 2037 would make needy communities, clearly the most deserving, the primary recipients of this fiscal aid.

[Whereupon, at 12:01 p.m., the subcommittee adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

from the office of
Mark Andrews U.S. Senator for North Dakota

TESTIMONY BEFORE THE
SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS
S. 2037, THE TARGETED FISCAL ASSISTANCE PROGRAM
JULY 24, 1986

MR. CHAIRMAN, I AM PLEASED TO TESTIFY BEFORE YOUR SUBCOMMITTEE THIS MORNING ON THE TARGETED FISCAL ASSISTANCE PROGRAM, S. 2037 WHICH I AM COSPONSORING. THIS LEGISLATION IS EXTREMELY IMPORTANT TO LOCAL COMMUNITIES AS THEY FACE THE UNIQUE CHALLENGE OF PROVIDING SERVICES WITH LIMITED RESOURCES. THIS PROBLEM IS ONE WHICH REQUIRES OUR IMMEDIATE ATTENTION BECAUSE THE GENERAL REVENUE SHARING PROGRAM IS SCHEDULED TO BE TERMINATED AT THE END OF THE CURRENT FISCAL YEAR.

LET ME STATE FOR THE RECORD THAT I HAVE ALWAYS BEEN A STRONG AND LONGTIME SUPPORTER OF GENERAL REVENUE SHARING. OUR CITIES AND TOWNSHIPS HAVE BEEN ABLE TO PROVIDE QUALITY SERVICES BECAUSE OF THIS OUTSTANDING PROGRAM. IT IS MY HOPE THAT THE CONGRESS WILL RECONSIDER ELIMINATING GRS AND PASS LEGISLATION THAT WILL ALLOW THE GENERAL REVENUE SHARING PROGRAM TO CONTINUE PAST SEPTEMBER 30TH OF THIS YEAR. HOWEVER, SINCE EVERY DAY THAT POSSIBILITY BECOMES INCREASINGLY REMOTE, WE MUST EXPLORE ALTERNATIVE APPROACHES, SUCH AS THE TARGETED FISCAL ASSISTANCE PROGRAM.

THROUGHOUT MY CONGRESSIONAL CAREER, I HAVE ALWAYS BELIEVED THAT THE LOCAL GOVERNMENTS WERE BEST ABLE TO DETERMINE THE ALLOCATION OF FUNDS TO BE SPENT WITHIN THEIR COMMUNITIES. THE "TARGETED FISCAL ASSISTANCE PROGRAM" WILL ALLOW THESE COMMUNITIES TO MAKE THOSE CRITICAL DECISIONS. THE GOAL OF THIS PROGRAM IS TO DIRECT THE STATE'S GIVEN ALLOCATION TO THOSE COMMUNITIES MOST IN NEED. NORTH DAKOTA IS A STATE WHERE THE TARGETED FISCAL ASSISTANCE PROGRAM WOULD BE EFFECTIVE BECAUSE OUR TWO PRIMARY INDUSTRIES - AGRICULTURE AND ENERGY - ARE BOTH SEVERELY DEPRESSED AND THE IMMEDIATE ECONOMIC OUTLOOK FOR THE STATE IS BLEAK.

ALTHOUGH WE MUST CONTINUE OUR EFFORTS TO LOWER THE DEFICIT, WE MUST REMAIN SENSITIVE TO THE GENUINE NEEDS OF OUR PEOPLE. WE CANNOT ALLOW CUTBACKS IN MUNICIPAL SERVICES SUCH AS POLICE AND FIRE PROTECTION, MEALS ON WHEELS PROGRAMS FOR OUR SENIORS, TRANSPORTATION SERVICES FOR THE ELDERLY AND HANDICAPPED, AND VARIOUS OTHER PROGRAMS THAT DIRECTLY IMPACT ON THE HEALTH AND WELFARE OF OUR CITIZENS. THE "TARGETED FISCAL ASSISTANCE PROGRAM" GUARANTEES THAT LOCAL COMMUNITIES WILL BE ABLE TO CONTINUE PROVIDING THESE MOST IMPORTANT SERVICES.

IT IS MY UNDERSTANDING THAT THE PROGRAM WILL BE FUNDED AT 2.28 BILLION PER YEAR. ALTHOUGH THIS IS A 50% REDUCTION FROM THE PRESENT GENERAL REVENUE SHARING PROGRAM, TFAP WILL ELIMINATE THE MOST EGREGIOUS INEQUITIES OF GRAMM-RUDMAN-HOLLINGS AND ASSURE COMMUNITIES MOST IN NEED OF THEIR SHARE OF FEDERAL FUNDS.

MR. CHAIRMAN, PRIOR TO DISCUSSING S. 2037, I WOULD LIKE TO MAKE IT CLEAR THAT I HAVE ALWAYS CHAMPIONED GENERAL REVENUE SHARING AND I WILL FIGHT VIGOROUSLY TO RESTORE IT. I WAS PRIVILEGED TO SERVE IN THE HOUSE WITH FORMER CONGRESSMAN AND SECRETARY OF DEFENSE MELVIN LAIRD, THE FATHER OF THIS PROGRAM. AND I CAST THE INAUGURAL VOTE FOR THE PROGRAM WITH MEL IN 1969. I VIEW THIS TFAP LEGISLATION AS A NECESSARY ALTERNATIVE TO SIMPLY ABOLISHING GRS - AN EFFORT I VIGOROUSLY OPPOSED IN THE BUDGET COMMITTEE.

"Federalism and Targeted Fiscal Assistance"

Statement by
Senator Daniel J. Evans
July 24, 1986

Testimony to
Senate Government Affairs Subcommittee
on Intergovernmental Relations

Introduction

Good morning. Mr. Chairman and other distinguished members of the Subcommittee, I appreciate this opportunity to discuss a proposal that offers a thorough overhaul of our intergovernmental relationships -- a proposal that would:

- achieve sweeping federalism reform and a major reordering of federal domestic priorities on which Republicans and Democrats; conservatives and liberals; and federal, state and local governments can agree;
- provide a responsible, achievable middle ground for the coming debate over welfare reform and family policy; and
- present a structural change to government of sufficient strength to help solve our deficit crisis.

And, most importantly, the elements of this proposal would be implemented gradually on a fiscally-neutral basis.

Background

In December, 1985, the Committee on Federalism and National Purpose released its report, To Form a More Perfect Union. It was the culmination of the work by the Committee, co-chaired by former Governor Charles Robb and myself, along with Senator Durenberger and a group of 22 other representatives from all levels of government, academicians and well-respected professionals. Truly, the strength of the Committee was the consensus we found and the whole of all the individual recommendations.

Following its release, we were committed not to allow the report to sit on a dusty shelf. So we enlisted experts from NGA, the Governors' Budget Directors and GAO, as well as former Democratic and Republican Administration officials, to draw up a package of far-reaching legislation.

Implementation Plan .

We hope to implement the report's recommendations in a fiscally-neutral way by seeking leadership and member support, building a diverse coalition of support and using the reconciliation process during 1987. As a starting point, however, we hope to initiate discussion by introducing omnibus legislation in September, which I hope will be the topic of hearings held by this Subcommittee this fall.

Preliminary Efforts

We have developed combinations of proposals and options that meet the test of fiscal-neutrality. These combinations are consistent with the report's recommendations of:

- establishing national minimum benefit levels and eligibility standards for the AFDC and Medicaid programs, with up to 90 percent federal funding. States should retain administrative responsibility and to the maximum extent possible, convert welfare systems into job systems.

  Afterall, to be poor and hungry in New York or California is of little difference to being poor and hungry in Mississippi, Maine or Missouri.

- terminating most local community development, infrastructure and many personal social service programs would be terminated. State and local governments could replace federal spending for programs that are more cost-effective and responsive to local priorities.

  While terminating programs pose difficult choices for Congress, it becomes much more palatable, when it represents a give and take between federal, state and local governments. Even with the bold efforts of Senators Domenici and Chiles, they are restricted to offering "status quo" budgets that are "responsive to this year's needs but not next." By allowing programs to continue at yearly spending freezes or reductions of 5 or 10 percent, we are not doing an effective job and are slowly strangling many important programs.

- consolidating into a block grant the federal contributions to the non-medical aspects of long-term care. While a comprehensive solution appears to be a decade away, this block grant proposal may provide a first step in that direction.

- creating targeted assistance programs. Integral to this federalism proposal are "fiscal capacity grants" targeted to those states and localities with very low tax capacity -- simply those which manifestly cannot help themselves. The original recommendations of the report, sought to establish fiscal capacity grants targeted to the 12 to 15 poorest states, with a transitional local assistance program to help cushion the immediate impacts on communities. However, it is difficult to determine the relationship among the state and local programs -- specifically, which should be permanent and at what level of funding. Until the proposal's distributive impact upon states and localities have been calculated, such decisions cannot be made.

  One issue is clear. Senator Durenberger's targeted fiscal assistance legislation, S. 2037, creates a splendid foundation from which to build. It introduces the important concepts of fis~al capacity and targeting funds based on this measurement.

  I do suggest a few ideas for change, however.

  1. It should provide for increased responsibility of state governments in passing through funding for local governments by allowing them to add need factors and/or better fiscal capacity measures, eventually giving them the discretion to allocate funds under their own formula, rather than a federally specified formula.

  2. A major policy decision remains on the appropriate focus of this program -- should it seek broad-based support through increasing the number of beneficiaries or should it target and attempt to narrow fiscal disparities. I suggest we lean toward the latter.

     This can be accomplished by (a) lowering income eligibility cutoff; for example, dropping 125 percent average per capita income to 120 percent; (b) using U.S. average income rather than state average income; and/or (c) increasing the minimum grant that is awarded to a community.

Chairman Durenberger, I look forward to working with you in fine-tuning these state and local grant proposals as well as pursuing the report's other recommendations.

Conclusion

In closing, this plan supports a diverse combination of interests.

- It terminates a number of federal programs and allows states and localities to determine their priorities.
- It creates greater nationwide uniformity in the benefits provided by federal safety-net programs.
- It promises to place welfare recipients into jobs.
- It removes the tangled web of regulation between federal and state/local governments.
- It levels the fiscal disparities between the poorest and wealthiest states.
- And, above all, it reforms our intergovernmental structure -- strong enough to help us out of our deficit crisis.

With our nation celebrating the bicentennial of the Constitution next year, I can think of no better time to return to the basics -- **"To Form a More Perfect Union."**

STATEMENT OF THE HONORABLE

HARLEY O. STAGGERS JR.

ON

TARGETED FEDERAL AID TO LOCAL GOVERNMENTS

BEFORE THE

SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS

JULY 24, 1986

TESTIMONY FOR SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS
HEARING ON TARGETED FISCAL ASSISTANCE

July 24, 1986

Congressman Harley O. Staggers Jr.

Mr. Chairman, I appreciate the opportunity to come before this esteemed panel today to present to you my testimony on the benefits of a targeted fiscal assistance program. Your leadership in this area is to be commended, and I am honored to be among the distinguished guests that you have invited to speak to this pressing issue.

I have long been a supporter of the General Revenue Sharing program. In a district such as the Second District of West Virginia, the benefits of this type of financial assistance are readily apparent. In many communities in my district, Revenue Sharing comprises more than 25 percent of the jurisdiction's operating budget. These communities are using this money for a variety of purposes, but the letters I receive tell me that the most pressing needs are related to public health and public safety. I have been told that if the Revenue Sharing program is eliminated so, too, will these services.

I have become increasingly concerned as I see efforts to eliminate this program, or to drastically reduce its funding, gain momentum. Also, I have long been concerned about the expanding federal deficit. Taking into account the current political climate, it becomes evident that the likelihood of Revenue Sharing receiving status quo funding is slim. I believe, therefore, that the sensible approach in this situation is to look for alternatives to the current method of direct fiscal assistance to local governments -- we need a program that would continue to assist those communities still in need but that would do so with reduced funding levels. Thus, Essential Services Payments to Local Governments, H.R. 4703, was born.

When Revenue Sharing was developed, the notion of eliminating fiscal disparities among local governments resulted in formulas designed to target the assistance. And, although Revenue Sharing has achieved some level of targeting, its effectiveness is greatly hampered by the use of two unwieldly formulas developed separately by the House and the Senate. For example, Mississippi's average state per capita income is 69.7 percent of the average U.S. per capita income, or $7,679. Its per capita payment under the current Revenue Sharing program is $23.26. Yet, Alaska, with an average state per capita income of $15,639, 142.1 percent of the U.S. average, receives a per capita payment under Revenue Sharing of $45.64. Alabama's per capita payment under Revenue Sharing does not even equal the U.S.

average per capita payment of $19.52, but its average state per capita income is 78.5 percent of the U.S. average per capita income. Meanwhile, Wyoming enjoys a per capita payment of $30.82 and its average state per capita income is $12,111 or 110 percent of the U.S. average.

Within individual states, there are equally disturbing comparisons. For example, using current formulas at a funding level of $3.5 billion, Beverly Hills, California would receive a per capita grant of $6.12. Its average per capita income is 270.1 percent of the state's average per capita income. Compare this to Maricopa, California, which has an average per capita income of $8,167, 77.5 percent of the state average, and which would receive the nearly identical per capita allotment of $6.13. Under H.R. 4703, at $3.5 billion, Beverly Hills would receive no funding, and Maricopa would receive an increase of 45 percent. This is what effective targeting can achieve.

I cite an additional example in the state of Florida. The communities of Palm Beach and Bonifay would receive a per capita grant of $5.78 if Revenue Sharing was funded at $3.5 billion. Consider, however, that the average per capita income of Palm Beach is $33,945, 146.1 percent of the state's average per capita income, while Bonifay's average per capita income is a mere $6,361, only 64.9 percent of the state's average per capita income. Under the Essential Services program, Palm Beach would not receive funding and Bonifay would realize an increase of 143.4 percent.

An additional quirk in the program, that of tiering within the state, results in two communities in two different counties having identical characteristics yet receiving two different allocations of funds. Again, Essential Services, H.R. 4703, would eliminate this inequity by removing the current tiering structure.

I do not use these examples to polarize. In every state, there are some communities that are well-to-do and some communities that are in great need. I cite these examples to draw your attention to the fact that Revenue Sharing is not the best we can do at this time. We have had 14 years to study the effectiveness of the methods and formulas used to disburse funds under Revenue Sharing. We have the opportunity to create an even better, fairer, method of allocating funds. Not to seize this moment would be a testament to our lack of initiative and imagination.

Many opponents of Revenue Sharing use its very name to attack the program. Perhaps "Revenue Sharing" is an unfortunate nickname for the State and Local Fiscal Assistance Act of 1972, because it does not adequately describe the intent of the program. The report recently published by the Department of Treasury, Federal-State-Local Fiscal Relations, states that one of the functions of government is "...promoting a reasonable distribution of income among individuals and families and fiscal capacity among subnational units of government." The Revenue Sharing program sought to achieve this function. The current program has had some success in that area, but there is room for improvement. H.R. 4703 provides that improvement.

Targeting does not promote one region of the country over another, nor does it pit urban areas against rural. It answers a need, the need of the low-income community.

Using a similar tax effort rate, a low-income community cannot raise the same amount of money per capita as a high income community. The above-mentioned report elaborates on this saying, "The local governments in the bottom income-class could raise $33 per capita if they exerted the national-average tax effort [1.75 percent]; those in the top income-class could raise $471 per capita with the same tax effort."

Compared to current Revenue Sharing formulas, my Essential Services bill would give those communities with average per capita incomes under 85 percent of the U.S. average more than a 40 percent increase in grants, regardless of the degree of urbanization. This is what a fiscal assistance program should do. This is why targeting is important.

Mr. Chairman, there are a great many similiarities in your bill, S. 2037, Targeted Fiscal Assistance, and the bill that I have introduced, H.R. 4703, Essential Services Payments. Both bills present a simplified formula that measures need, tax effort and fiscal capacity in the interstate formula. Both bills include poverty rates as one of the measurements of need. The local government formulas both utilize population, tax effort and income factor in determining the allocation amounts. We have both seen it necessary to eliminate a minimum payment to jurisdictions, placed a cap upon local tax effort, and established the use of Total Taxable Resources as a measure of capacity. S. 2037 and H.R. 4703 establish a per capita deminimus of five percent of the state per capita payment and a 200 percent maximum per capita payment. Finally, both bills recognize the unique needs of Indian tribes and Alaskan Native villages, as well as the District of Columbia, and have created a special set-aside entitlement for each of these entities.

Although similar in intent, H.R. 4703 does veer from the methods brought forth in your bill, S. 2037. We have both sought to create a piece of legislation that reflects the need for local fiscal assistance that still exists in our country. In addition to counting population and poverty population in the definition of need, I have included unemployment population in this measurement. When measuring tax effort, I have included user fees and charges in with taxes collected as a more complete measure of a locality's income.

I have allowed for a cost-of-living adjustment in both the interstate and local formulas. This adjustment becomes necessary, especially in light of the requirement in both of our bills that communities with an average per capita income greater than 125 percent of the state's average cannot participate in the program. West Virginia's average per capita income is $7,320. Communities in West Virginia with an average per capita income of $9,150 are still below the U.S. average, yet are at 125 percent of the state's average per capita income. Connecticut, on the other hand, has an average per capita income of $11,897. Communities in Connecticut could have an average per capita income of up to $14,871 and still be eligible to participate in the Essential Services program. The adjustment seeks to acknowledge the cost-of-living in various states, while not penalizing those communities of average means in poorer states.

My bill, H.R. 4703, was not drafted to amend the existing Revenue Sharing legislation. It is a separate piece of legislation that borrows heavily from the useful and productive aspects of Revenue Sharing, such as the provisions on budget hearings and anti-discrimination measures. But I have also sought to answer the criticisms of the Revenue Sharing program by increasing the accountability of such a fiscal assistance program. Effective targeting is one of the best ways to be assured that the money allocated to local governments is well spent. I have gone several steps farther.

H.R. 4703, establishes three priority areas for which allocated money can be used under this program. The priority areas chosen are consistent with the title of the bill: they are services that are essential and that are usually the responsibility of the local government -- public health, public safety, and public transportation. In 1983, local governments spent $22.9 billion on police and fire protection alone. Focusing on priority areas logically follows the notion of targeting. In 1964, the Advisory Commission on Intergovernmental

Relations stated in its publication, The Role of Equalization in Federal Grants, "...the purpose of the equalizing feature in an aid program is not geographic redistribution of income but rather the attainment of some national objective, such as insuring a minimum level of essential public services through joint Federal, State and local action."

To further induce accountability, I have strengthened auditing requirements and have called for the use of signs to designate where and how Essential Services monies are being used. Most other federal programs that bring financial assistance to a community, such as Environmental Protection Agency wastewater grants, announce the federal participation in a project with a sign proclaiming the degree of that participation. It is important that the people in our communities know that the federal government is helping them to provide their public services. It is equally important that these people know how that money is being used.

Finally, I have called for additional study of the alternatives for direct federal aid to local governments. The method of funding that I have proposed by introducing the Essential Services bill is much improved over the existing

Revenue Sharing program, but it is not the final act in this play. We must be willing to change an exisiting program when research and reflection indicates that the change results in a more equitable and efficient method of distributing financial aid. This is true now for Revenue Sharing and it may be true in future years for Essential Services.

The question now before the Congress is not what was or is the intent of Revenue Sharing. It is not a matter of who are the "winners" and who are the "losers" when you compare existing allocations to targeted allocations. The question is what conditions exist now in our towns and in our counties that require our attention and that require federal financial assistance. The question is, in light of probable reduced funding for Revenue Sharing, who will be greater hurt by a 50 percent cut in funding -- a distressed, recently flood-stricken community such as Parsons, West Virginia, or a wealthy community such as Scarsdale in New York?

I am proud to join with you, Mr. Chairman, in this quest for a targeted assistance program. The fact that this goal is supported in a bipartisan manner speaks to its appeal and its deliberation. Without targeting, Beverly, West Virginia would receive a per capita grant of $5.86 and Beverly Hills, California, a per capita grant of $6.12. The absurdity of these numbers amplifies when you realize that Beverly's average per capita income is $6,645 and that Beverly Hills' average per capita income is $28,488. Targeting eliminates the folly of numbers such as these and uses federal money in a responsible, meaningful way.

Mr. Chairman, I again thank you for the honor of testifying before your committee today. I applaud your interest and work with this important topic. I am certain that with your leadership, the words spoken here today will gain the attention of our colleagues and will result in a program that will truly aid the neediest members of our American Family.

Testimony of
Alvin D. Sokolow, Professor of
Political Science, University of California, Davis

Hearing on Targeted Fiscal Assistance
Subcommittee on Intergovernmental Relations,
United States Senate Committee on Governmental Affairs

July 24, 1986

Mr. Chairman and members of the Subcommittee. I am Alvin D. Sokolow, a professor of Political Science at the University of California, Davis.

As a researcher and teacher, most of my work deals with local government and policy in rural and other small communities. I have spent the past 11 months in Washington, engaged in several projects relating to small town governments, including the impacts on them of federal policies and programs. During this period I have been affiliated with the National Association of Towns and Townships, as visiting fellow with NATaT's National Center for Small Communities. I have also been associated during this time with the Economic Research Service of the U.S. Department of Agriculture in connection with a study of rural government capacity. My remarks this morning represent my personal views and do not reflect the positions of either of these organizations.

I am pleased to offer these comments on S. 2037, the Targeted Fiscal Assistance Act. I will first comment on the proposal itself and then discuss, more generally, the involvement of rural and other small local governments in federal programs.

Targeted Fiscal Assistance

As a method for retaining a program of general federal assistance to local governments, the proposal is an excellent one in my opinion. It improves somewhat on General Revenue Sharing, and gives the rationale of general assistance a firmer grounding, by increasing the targeting of funds to less wealthy communities. "Revenue sharing" is a misleading and politically unfortunate misnomer, and I am happy to see its replacement by a term which more accurately reflects the purpose of lessening local fiscal disparities. I regret that the annual funding level of the bill is half that of recent GRS levels, although I can appreciate the fiscal environment that appears to make this necessary. I can only hope that if TFA is enacted, future reauthorizations will take account of inflation.

While very much in support of the concept and direction of S. 2037, I must point out a component of the proposed TFA formula that would seem to eliminate or severely reduce allocations to a number of small governments. The minimum allocation possible to any unit of local government is $500--presumably because smaller entitlements are too insignificant to award or jurisidictions qualifying for less are unworthy of federal assistance. Your staff analysis refers to " 'paper' governments which provide virtually no services". I am not sure what that means. But I know that the countryside contains a number of tiny general purpose governments--many in quite isolated locations--which are valued by their citizens as agents of representation and political identity. We cannot adequately measure the importance of these governments as community institutions by looking just at sizes of budgets, programs, and staffs. Many rely on volunteer labor, including that of their elected officials, in place of paid and professional employees. A TFA disbursement of even a few hundred dollars can have considerable weight in a tiny budget.

Collectively, there probably are at least 100,000 residents in communities with local governments that under TFA would qualify for payments of less than $500 apiece. In the current year's GRS allocations, there are 1,855 such municipalities, townships, and Indian tribes and Alaskan villages, with a total population of about 163,000 (GRS allocation statistics for entitlement period 17). I strongly urge that the $500 provision be eliminated or, at the least, reduced to the $200 minimum level of the GRS program.

Small Governments and the Federal System

Let me turn now to the broader issue of how Targeted Fiscal Assistance relates to the role of small local governments in the federal system. The major virtue of TFA, it seems to me, is that it retains a program of general fiscal aid for the great majority of local governments in the nation. Without the continuation of such a program in some form, most local governments would be cut out entirely from federal assistance. This would be the impact of the termination of General Revenue Sharing after this year.

As you know, GRS has been the only form of continuing federal aid received by small local governments. There is no other entitlement program for such jurisdictions, and relatively few obtain one-time grants or loans from project-type federal programs. My estimate, based on a study I recently completed for the National Center for Small Communities, is that, without the continuation of some form of general assistance beyond this year, about 31,000 governments serving rural and other small communities nationwide would be shut out of the federal aid system. This is about 87 percent of all 36,000 general purpose local units--municipalities, towns and townships, and county governments--which serve communities under 25,000 population. (These governments constitute about 94 percent of all general purpose units in the nation. Their communities contain more than 70 million residents, 35 percent of the total population of the country.)

Fewer than 5,000 small governments would receive federal aid in any one year, according to my estimate. This is based on the Administration's proposed budget for Fiscal 1987, which terminates all the major aid programs used by small governments but two--the Small Cities portion of Community Development Block Grants and the declining EPA wastewater construction grants (scheduled for phaseout by 1990). The major programs proposed for elimination, besides GRS, are the rural grant and loan activities of the Farmers Home Administration, HUD's Urban Development Action Grants, and the public works grants of the Economic Development Administration.

Even if the Administration's budgetary plans are not implemented, as now seems likely, the great majority of small governments would still be removed from the system without some form of continuing general fiscal assistance. Only 1500 or so small units would be added to my first estimate of fewer than 5,000 annual aid recipients, simply because funding levels for the project programs used by these governments have decreased greatly in recent years. The Farmers Home Administration, for example, is now supporting about 800 rural localities a year with loans and grants for water, wastewater, and community facilities projects, as compared to about 2,400 annually in the late 1970s. Annual loan and grant activity for FmHA is down to about $400 million now, as compared to more than $1 billion in the late '70s (current dollars, not controlled for inflation).

Federal assistance to big cities and counties, of course, has also declined substantially in recent years. The major difference, however, is that virtually all large jurisdictions continue to receive entitlement awards (principally CDBG entitlements). They also dominate the grantsmanship process for obtaining project awards. Much more than the big cities, our small governments operate in a highly competitive federal aid environment with shrinking funding pools. Among small jurisdictions, as a result, there are far more losers than winners in the grantsmanship process.

Another Reason for TFA

Correcting for local fiscal disparities is a solid justification for maintaining a federal program of general aid in the form of Targeted Fiscal Assistance. Especially in these times of economic hardship among many rural and other small communities, there are good reasons for targeting a small share of federal resources to the support of the public sectors of needy communities. To the list of small-town hardship cases in the agricultural heartland, as documented in the study done for your subcommittee by Tom Stinson of the University of Minnesota, I would add numerous localities in the Pacific Northwest still suffering from the depression in the timber industry and many small communities elsewhere affected by mill and factory closures. Such communities are the victims of national and international economic developments. Lacking the diverse economic bases of larger places and most metropolitan regions, they are especially vulnerable to external decisions and trends.

I think it important to add, however, another and perhaps more fundamental reason for having TFA. Continuing a program of general fiscal assistance to small local governments makes sense also because it is a small and partial compensation for their ongoing programmatic and policy obligations in the federal system. It has only been since the early 1970s that the small jurisdictions have been major participants in federal programs, largely as a result of new and greatly expanded aid programs and a host of mandates and other requirements instigated at about that time. Reducing fiscal aid affects only one-half of the national-local relationship; all evidence points to a continuation of mandates and other requirements (many the indirect result of congressional, executive, and judicial actions) on all general purpose local governments. Our 36,000 small governments, because they serve the far-flung nooks and crannies of the nation, have an important role to play in carrying out vital national policies in environmental protection and other areas. TPA gives this role an important measure of federal recognition and support.

I thank you for the opportunity to make these observations and to express support for the Targeted Fiscal Assistance program.

STATEMENT OF

MILTON D. MORIS

DIRECTOR OF RESEARCH

JOINT CENTER FOR POLITICAL STUDIES, INC.

BEFORE THE U.S. SENATE COMMITTEE ON GOVERNMENT OPERATIONS

ON

THE TARGETED FISCAL ASSISTANCE ACT OF 1986

JULY 24, 1986

My name is Milton Morris. I am Director of Research at the Joint Center for Political Studies, a non-profit, non-partisan public policy research institution.

Mr. Chairman, members of the Committee, I am very grateful for the opportunity to comment on the Targeted Fiscal Assistance Act of 1986 (S 2037) being considered by this Committee. I heartily applaud the efforts of Senator Durenberger and the several co-sponsors of this bill for their efforts to secure its enactment.

I have been more than a casual observer of Federal revenue sharing programs over the past twelve years, having participated in monitoring some of these programs starting with the Community Development Bloc Grant program. The bloc grant and General Revenue Sharing programs have been controversial at times. Frankly, I am one of those who have had serious reservations about some major features of General Revenue Sharing. At least three basic facts stand out in the research and commentaries on the revenue sharing efforts to date:

1. They have been meeting some critical needs of states and localities and encouraging these governments to tackle problems that they might otherwise have ignored.

2. They have been very costly.

3. They have not been as discriminating in the allocation of funds as seemed desirable.

The Targeted Fiscal Assistance Act is impressive when considered in light of these observations.

The Need Factor

Federal aid to States and local governments is no longer popular. There is abroad an impression that state and local governments are doing very well, that the urban crisis about which many thoughtful public officals worried a decade ago has abated, and that fiscal pressures are now confined largely to the Federal government. These impressions have led many policy-makers and much of the public to acquiesce in the relatively sharp curtailment of some Bloc Grant programs and in moves to end General Revenue Sharing.

The reality is quite different, however. While a number of States and localities are in better fiscal shape than they have been in several years, many others have not experienced an economic recovery, and indeed, are faced with new severe fiscal hardships. For example, the country's agricultural sector remains in serious distress, a situation that appears likely to persist for the foreseeable future. This means that several major farm states and a large number of small and medium-sized cities in these states will be severely strained in trying to effectively meet basic local needs.

The farm sector is the newest of our fiscal problem areas, but certainly not the only one. A number of America's older inner cities that were severe hardship cases a decade ago, are still in the throes of depression-like conditions, with massive unemployment, deteriorating infrastructures, and a mounting array of unmet needs that directly affect the quality-of-life for millions of Americans. Furthermore, a rapidly growing body of information is awakening the country to the plight of millions of chronically poor, concentrated mostly in these cities, whom we inelegantly refer to as "the urban underclass."

Hardly anyone disagrees that there is a massive and rapidly growing population of "permanently" poor, who have little chance of obtaining the skills or employment opportunities that could lift them and their families out of poverty without substantial help from government. While the causes of this disturbing growth are disputed, few dispute that the repercussions for the whole society are grave. America simply cannot afford to tolerate the unchecked growth of this underclass permanently cut off from the opportunity structures of the society.

An important objective of Federal policy in recent years has been to help reduce the massive disparities that exist in the capacity of States and localities to deal with severe hardships. CDBG tried to accomplish this by helping to meet housing and neighborhood development needs. General Revenue Sharing sought to accomplish the same purpose by making funds available to States and localities to be used as they see fit. The TFA would continue this effort, one it is important that the nation not abandon.

The Cost of Revenue Sharing

Revenue Sharing is unavoidably costly. We are dealing with several thousand units of government in our Federal system. If the program is to be even moderately effective, funds must be available to localities in increments large enough to make a difference in what they do and how they do it. None of the problems State and local government face today have nickel and dime solutions. In light of these considerations, the current level of expediture for GRS has not been excessive. The approximately $2.3 billion proposed under this bill is extremely modest -- the very minimum that can qualify as a responsible response to the problems we seek to address. This is so in spite of the greater care with which it promises to allocate funds.

I understand, Mr. Chairman, that the climate is one dominated by deficit and tax reductions and appeals for more are not likely to be well received. Because I am wary of false economies wherein we save 1 billion today only to create conditions that will require $10 billion to correct tomorrow, I urge the Committee to view the proposed $2.3 billion as a floor from which we should move up if at all possible. The judicious application of these funds, or more if possible, might well prove to be one of the most effective, long term savings we can accomplish.

Targeting Assistance

A major complaint about General Revenue Sharing is that it failed to distinguish adequately between States and localities that really need Federal assistance and those that do not. Even with its elaborate needs formula, the Community Development Bloc Grant program came in for the same criticism. Not only did they fail to make this distinction among jurisdictions, they also failed in the allocation of funds within jurisdictions. As one critic of this aspect of these programs, I vigorously applaud the effort made in this bill to get more out of fewer dollars by targeting on the basis of need.

I have not yet scrutinized the formula proposed in this bill, but its basic elements appear generally appropriate to ensure that the distribution of the funds will be influenced by measurable need. This feature should go a long way toward satisfying those who have complained about the indiscriminate way in which GRS funds have been distributed. However, I would like to feel more confident than I now do that the formula will ensure balanced treatment of both large urban places and rural farm places.

It is important to acknowledge, that effective targeting is considerably more difficult to achieve than is often assumed by the designers of allocation formulas. The difficulties begin with the very decision-making process. It is extremely difficult for even the most well-intentioned law-maker not to perceive an element of the pork barrel in every revenue sharing program and to ensure that the formula is modified just enough to include his or her constituency. Thus, all formulas must be viewed with some suspicion and attempts to improve or embellish them even moreso.

Another source of difficulty is that targeting to needy jurisdictions does not always ensure that needy individuals or areas within those jurisdictions will benefit. Very often the intra-jurisdictional targeting problems have been the most troubling ones. Blacks and other minorities without significant political influence have been especially concerned about this phase of the targeting effort. One solution might be to expand the needs formula to cover intra-jurisdiction allocation of funds. However, one of the real values of GRS is that localities are given substantial freedom to use the funds to meet needs as they perceive them and in ways that appear most effective for each place. This feature would probably be substantially curtailed by direct intrusion into the choices localities make.

While ideal targeting mechanisms are probably unachievable, the Committee can take two kinds of actions to come close to the ideal. One is to carefully scrutinize proposals to revise the formula and resist those modifications in the formula that seek to increase the number of beneficiaries as concessions for support. The Bill already has a powerful rationale and promises to address needs in every region of the country and in semi-rural and urban places. This advice is perhaps politically naive, but in this case I submit naivete is a virtue. Second, I urge that the Bill include a much stronger, clearer statement of purpose that speak to the desire to address needy localities and needy areas or population groups in that localities. Such a statement would provide unambigouous guidance in administering the law.

Finally, I must comment on one of the longstanding fears many have had about revenue sharing programs. It is the fear that State and local governments, are bastions of social conservatism and racial insensitivity, and are unlikely to play fair with minority and low-income groups. One of the impressive developments of the past 15 years or so, is that more and more State and local governments have shed this image. Partly in response to strong Federal government efforts, increased opportunities for minorities to participate at these levels, and an apparent improvement in the calibre of State and local government leadership, much of these fears are no longer well-founded. The quality of State and local governance has been improving rapidly. Indeed, in several areas of social policy these governments are rapidly assuming leadership in devising innovative and effective strategies for meeting human needs. We can readily see this in the areas of welfare reform, healthcare, environmental matters to name a few areas. This development is the new Federalism that we should applaud and encourage. The bill before you is a particularly appropriate and timely acknowledgement of this important development.

United States General Accounting Office
Washington, D.C.

FOR RELEASE ON DELIVERY
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STATEMENT OF
RICHARD L. FOGEL, DIRECTOR
HUMAN RESOURCES DIVISION
BEFORE THE
SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS
ON
TARGETING FISCAL ASSISTANCE
TO REDUCE FISCAL DISPARITIES

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here to discuss our report issued to you today on how targeting fiscal assistance could reduce fiscal disparities among local governments.

I would like to begin by defining what we mean by fiscal disparities. Essentially, we defined fiscal disparities as differences in the levels of taxable resources available to communities, and differences in public service needs among communities. Thus, given the same tax rate, a community with a lower economic resource base will derive fewer tax dollars per resident than a community with more taxable resources. Therefore, poorer comunities must either accept lower levels of public services or tax themselves more heavily than their better-off neighbors to provide the same array and level of services. Similarly, communities requiring higher levels of services will have to tax themselves at higher rates than communities with lesser needs.

Fiscal disparities among the nation's communities are substantial. We analyzed tax and income data for 38,880 units of local government in 3,134 counties across the U.S. The data showed that, nationwide, cities, counties and townships collected $264 per person in fiscal year 1983. However, local governments in the nation's wealthiest counties raised nearly $338 per person compared to $150 per person in the poorest counties. Because rural areas tend to have lower income, some of this is due to urban-rural differences. However, disparities are prevalant within each group. For example, for the 40 percent of the U.S. population living in the most rural counties, those with the lowest income consistently devoted a greater percentage of their income to financing public services compared to their higher income neighbors. But, this higher effort yielded nearly 40 percent less revenue to meet public service needs.

For highly urbanized counties, we compared the revenue-raising disparities between central cities and their suburbs for the 20 largest metropolitan areas. Chart 1 shows a suburban revenue raising advantage for 18 of the 20 largest metropolitan areas. For example, Cleveland's suburbs can raise $1.58 for each tax dollar collected by the central city. At the other end, the suburbs of San Diego can raise only 98 cents per tax dollar collected by the city. With this background, I would like to turn to how fiscal disparities can be reduced.

Targeting Funds Reduces Disparities

Targeting funds to lower income communities will reduce the disparities I've just described. The more a given level of funding is targeted to low-income communities the greater will be the reduction in disparities. Alternatively, more targeting can achieve a given level of disparity reduction at lower cost. For example, if funding is targeted only to low income communities, all of it contributes to reducing fiscal disparities. On the other hand, if some funding is provided to high-income communities, funding for low-income areas must be increased that much more to achieve a given disparity reduction. This in turn raises the total cost of disparity reduction.

Chart 2 shows the cost of disparity reduction based on three different targeting policies. Column 1 represents the most targeted fiscal assistance formula, limiting eligibility to communities with incomes below the state's average income--about half the U.S. population. Column 2 represents the formula used in your targeted fiscal assistance bill which provides funding for communities with incomes up to 125 percent of the state's average--about 90 percent of the U.S. population. Finally, column 3 represents the least targeted formula, providing funding for communities with incomes up to 150 percent of the state's average--about 99 percent of the U.S. population.

To provide a basis of comparison, I would like to first note that the general revenue sharing program has provided about a 15 percent reduction in disparities at a $4.6 billion funding level, as identified in column 3.

Column 2, which reflects the formula used in your bill, shows that the same 15 percent disparity reduction can be achieved with $2.4 billion, almost half the revenue sharing funding level. Column 2 also shows that $4.7 billion--about the same funding level as revenue sharing--could double the disparity reduction to 30 percent.

Finally, I would like to point out that even greater targeting can substantially increase the amount of disparity reduction that could be realized. Column 1 shows that the cost of totally eliminating disparities just for communities with below average income could be achieved with $3.9 billion.

Increased Targeting Redistributes Funding Among Local Governments

Obviously, a key question will be how will greater targeting affect different communities? As I mentioned earlier, rural counties tend to have lower incomes compared to more urban counties. Consequently, increased targeting will allocate more funds to rural areas than the general revenue sharing program.

Indeed, the counties classified as 100 percent rural would receive almost 50 percent more funding under targeted fiscal assistance than they would under the revenue sharing program with the same funding level. At the opposite end of the the urban/rural spectrum, targeted fiscal assistance payments to local governments in those counties classified as 100 percent urban would be 94 percent of their revenue sharing payment. Chart 3 shows this trend for counties. The chart indicates that average payments to counties with 25 percent or more rural residents would be greater under the proposed targeted fiscal assistance formula in S. 2037. Conversely, counties with 75 percent or more urban residents would receive a lower payment.

While on the whole targeted fiscal assistance shifts funding to rural communities, it also targets more aid to low-income central cities in the largest metropolitan areas as opposed to those with relatively high incomes. Chart 4 ranks selected large cities according to their per capita incomes and compares payments they would receive under targeted fiscal assistance with what they would receive under the existing revenue sharing program. The lowest income cities would all receive increased funding while the highest income cities would get less.

Mr. Chairman, this concludes my statement. I would be pleased to respond to questions.

CHART I
RATIO OF SUBURBAN TO CENTRAL CITY REVENUE RAISING CAPACITY FOR THE 20 LARGEST METROPOLITAN AREAS

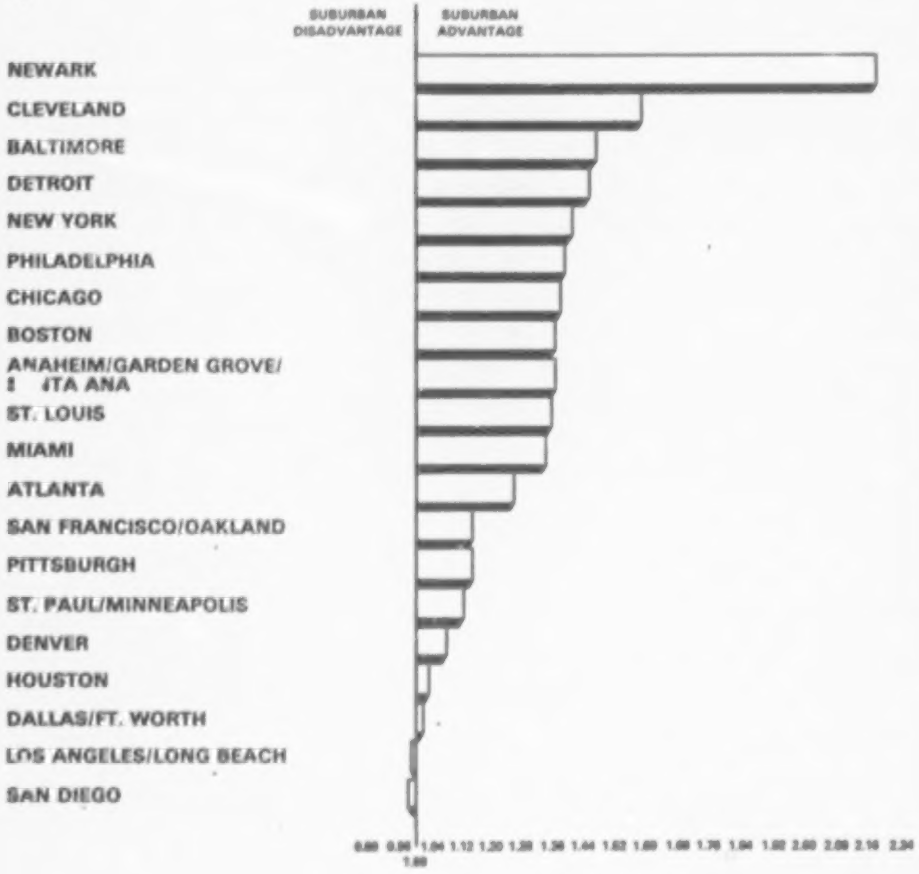


CHART II
ESTIMATED FUNDS REQUIRED TO ELIMINATE OR PARTIALLY REDUCE REVENUE DISPARITIES AMONG LOCAL GOVERNMENTS
(BILLIONS OF DOLLARS)

	DISPARITY REDUCTION %	INCOME ELIGIBILITY STANDARD (STATE AVERAGE = 100)			
		100	125	150	
(1)	100	$\boxed{\$3.9}$	$15.7	$30.6	
(2)	50	2.0	7.8	15.3	
(3)	30	1.2	$\boxed{4.7}$	9.2	
(4)	25	1.0	3.9	7.7	
(5)	20	0.8	3.1	6.1	
(6)	15	0.6	$\boxed{2.4}$	$\boxed{4.6}$	← GRS
(7)	10	0.4	1.6	3.1	
		(1)	(2)	(3)	

CHART III
RURAL AND URBAN AREAS: PERCENT CHANGE FROM GRS PAYMENT
USING S2037 FORMULA

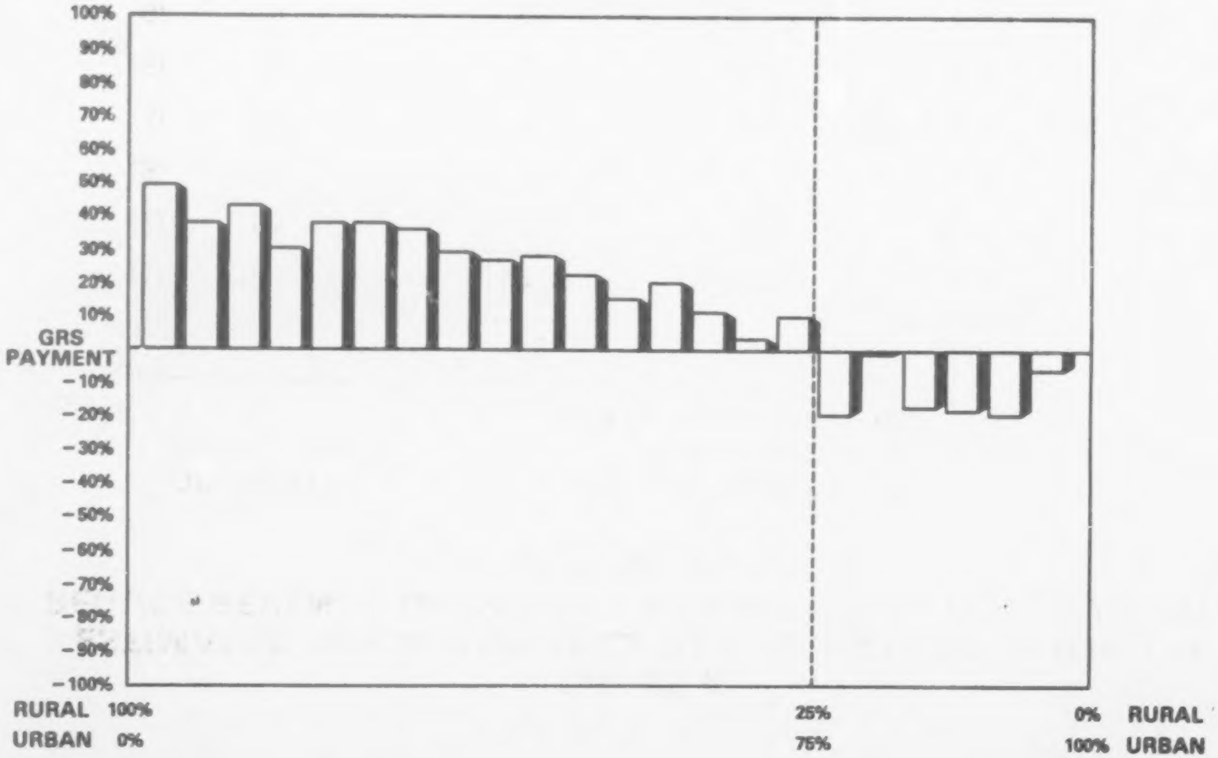
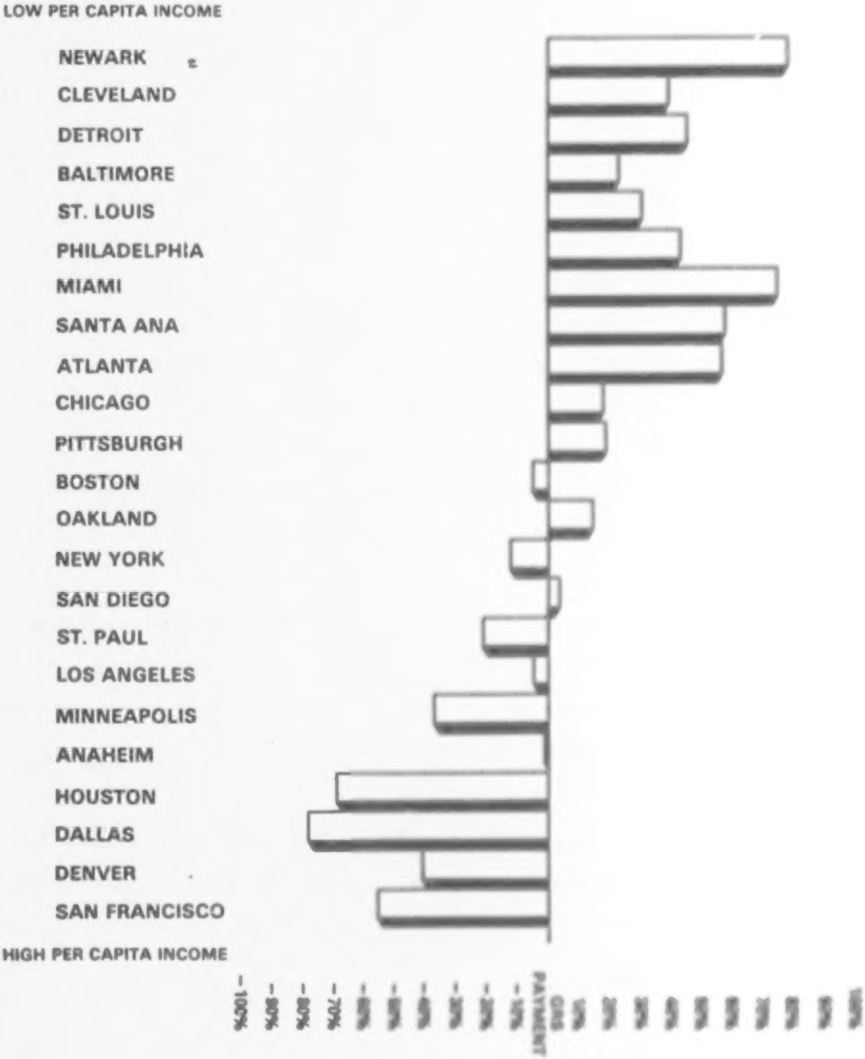


CHART IV
LARGE CITIES: PERCENT CHANGE FROM GRS PAYMENT USING S2037 FORMULA



STATEMENT

OF

GEORGE V. VOINOVICH, MAYOR OF CLEVELAND, OHIO

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE, I AM GEORGE VOINOVICH, MAYOR OF CLEVELAND, OHIO.

I AM GLAD TO HAVE THE OPPORTUNITY TO DISCUSS WITH YOU THE VITAL NEED FOR CONTINUATION OF A FISCAL ASSISTANCE PROGRAM. THE REPEATED ASSAULTS ON FEDERAL ASSISTANCE TO CITIES AND THE UNCERTAINTY OVER THE BUDGET PROCESS HAS RESULTED IN BUDGET GRIDLOCK FOR THOSE WHO MUST PROVIDE BASIC SERVICES FOR THEIR CITIZENS.

LOCAL ELECTED OFFICIALS ARE FACED WITH SETTING THEIR LOCAL BUDGETS WHILE TRYING TO PREDICT THE OUTCOME AND IMPLICATIONS OF GRAMM-RUDMAN, CONTINUING RESOLUTIONS, DEFERRALS AND RESCISSIONS, AND RETROACTIVE TAX CHANGES.

QUESTIONS OVER THE FEDERAL BUDGET HAVE FORCED CITIES INTO THE DIFFICULT POSITION OF DECIDING WHAT PROGRAMS TO CUT AND WHAT TAXES WILL BE NECESSARY TO MAINTAIN MINIMAL LEVELS OF ASSISTANCE TO OUR CITIZENS.

IN THE PAST, GRS HAS HELPED IN MEETING THE NEEDS OF FISCALLY PRESSED CITIES. THIS FISCAL ASSISTANCE IS EVEN MORE VITAL TODAY.

A RECENT FINANCIAL SURVEY BY THE NATIONAL LEAGUE OF CITIES FOUND THAT MORE THAN HALF OF THE CITIES AND TOWNS THROUGHOUT THE UNITED STATES EXPECT TO END THE CURRENT BUDGET CYCLE WITH EXPENDITURES AHEAD OF REVENUES.

THE DROP IN FEDERAL ASSISTANCE HAS REACHED SUCH PROPORTIONS THAT STATES NO LONGER HAVE THE RESOURCES TO HELP CITIES DEAL WITH THE FINANCIAL SHORTFALL. FEDERAL ASSISTANCE TO LOCAL GOVERNMENTS HAS DECLINED WELL OVER 50 PERCENT SINCE 1981. IN CLEVELAND, FOR EXAMPLE, OUR GENERAL REVENUE SHARING ALLOCATION IN 1981 TOTALED $14.1 MILLION, AND WE RECEIVED $37.6 MILLION THROUGH THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM. THIS YEAR THOSE NUMBERS HAVE BEEN REDUCED TO 10.5 MILLION FOR GRS, AND 24 MILLION FOR CDBG.

FEDERAL BUDGET REDUCTION EFFORTS ARE LIKELY TO FORCE ADDITIONAL CUTS IN BLOCK GRANT PROGRAMS. IN THE PAST, CITIES HAVE RELIED ON REVENUE SHARING FUNDS EVEN MORE HEAVILY AS THESE OTHER AID PROGRAMS HAVE BEEN CUT.

MORE IMPORTANTLY, A LOSS OF REVENUE SHARING WOULD DISPROPORTIONATELY HURT CITIES AND TOWNS IN THE WORST FISCAL CONDITION. THE NLC REPORT ON ECONOMIC CONDITIONS SHOWED THAT 38 PERCENT OF CITY OFFICIALS RESPONDING FROM 487 CITIES, LISTED THE ELIMINATION OF GRS AS

AN ACTION THAT WOULD HAVE "MAJOR ADVERSE IMPACT" ON THEIR CITIES.

FEDERAL BUDGET CUTS HAVE IMPACTED LARGE AND SMALL CITIES ALIKE. A RECENT REPORT BY THIS SUBCOMMITTEE DETAILED THE DEVASTATING EFFECT OF FEDERAL CUTS ON RURAL AREAS. RURAL AREAS COULD BE HIT EVEN HARDER THAN URBAN CITIES LIKE CLEVELAND, SHOULD GRS BE ELIMINATED, FOR THEY LACK THE VARIETY OF MEANS WE HAVE AT OUR DISPOSAL TO RAISE REVENUES.

GRS HAS BEEN THE SINGLE LARGEST PROGRAM OF FEDERAL AID TO LOCAL GOVERNMENTS. GRS HAS BEEN THE MOST COMPREHENSIVE OF ALL FEDERAL AID PROGRAMS, PROVIDING FUNDS TO CITIES OF ALL SIZES IN ALL REGIONS OF THE COUNTY. AND GRS HAS BEEN A TARGETED PROGRAM, WEIGHTED TOWARD THOSE COMMUNITIES THAT ARE DOING MOST TO HELP THEMSELVES. FOR INSTANCE, WE KNOW THAT EVEN UNDER GRS, MANY CENTRAL CITIES RECEIVE UP TO 8 TIMES AS MUCH ASSISTANCE PER CAPITA AS WEALTHY SUBURBS.

GRS HAS BEEN THE MOST FLEXIBLE OF ALL FEDERAL AID PROGRAMS, ALLOWING FUNDS TO BE USED FOR A WIDE RANGE OF PROGRAMS AND ACTIVITIES, AS DETERMINED AT THE LOCAL LEVEL, AND GIVING LOCALITIES THE OPPORTUNITY TO RESPOND QUICKLY TO NEW PROBLEMS AND DISTRESS, SUCH AS THE GROWING NUMBER OF HOMELESS IN OUR COMMUNITIES.

WHILE I HAVEN'T GIVEN UP HOPING THAT CONGRESS WILL RENEW THE FEDERAL-LOCAL FISCAL ASSISTANCE PROGRAM AT FULL FUNDING, I RECOGNIZE THAT, DUE TO THE SEVERE FISCAL RESTRAINTS THIS CONGRESS FACES, CITIES MIGHT BE FORCED TO ACCEPT A LOWER LEVEL OF FEDERAL AID FOR FISCAL

ASSISTANCE.

UNDER SUCH CIRCUMSTANCES, WITH LESS MONEY AVAILABLE, CONGRESS NEEDS TO RECONSIDER THE WAY MONEY GETS DISTRIBUTED AMONG COMMUNITIES, AND IT NEEDS TO LOOK TO WAYS THAT IT CAN CONTINUE TO ASSIST THOSE CITIES AND TOWNS IN THE MOST DESPERATE FISCAL STRAITS. THE TARGETED FISCAL ASSISTANCE PROPOSAL, AS ADVANCED BY SENATOR DURENBURGER, IS THE BEST PROPOSAL PUT FORWARD TO DO THIS.

THE CURRENT GRS FORMULA MEASURES PER CAPITA INCOME, POPULATION AND TAX EFFORT. THIS FORMULA REWARDS CITIES AND TOWNS WHICH MAKE THE MOST EFFORT TO HELP THEMSELVES BY COLLECTING TAXES FROM THEIR CITIZENS.

HOWEVER, THIS ASPECT ALSO TENDS TO REWARD VERY WEALTHY COMMUNITIES WITH THE RESOURCES TO LEVY HIGHER TAXES AND PROVIDE MANY SERVICES TO THEIR RESIDENTS. THESE COMMUNITIES HAVE THE LEAST NEED FOR FEDERAL ASSISTANCE. TFA WOULD NOT PROVIDE FUNDS TO COMMUNITIES WHOSE PER CAPITA INCOME EXCEEDS 125 PERCENT OF THE STATE PER CAPITA AVERAGE.

TFA GOES A STEP FURTHER TOWARD THE GOAL OF PROVIDING FEDERAL AID TO THOSE COMMUNITIES MOST IN NEED. BY WEIGHTING THE NUMBER OF INDIVIDUALS IN POVERTY, TFA PLACES MORE EMPHASIS ON THE NUMBER OF PEOPLE REQUIRING GOVERNMENTAL ASSISTANCE. THEREFORE, INDIVIDUALS IN POVERTY COUNT MORE THAN RELATIVELY WEALTHY INDIVIDUALS WHO DO NOT REQUIRE THE SAME LEVEL OF GOVERNMENT SERVICES.

ONE OF THE MOST IMPORTANT ELEMENTS OF THE GENERAL REVENUE SHARING PROGRAM HAS BEEN ITS FLEXIBILITY. GRS HAS ALLOWED CITIES TO DETERMINE THEIR OWN NEEDS. TFA WOULD RETAIN THE "NO STRINGS ATTACHED" NATURE OF THE PROGRAM. TFA WOULD CONTINUE TO ACKNOWLEDGE THE FACT THAT LOCALITIES ARE IN THE BEST POSITION TO DETERMINE THEIR NEEDS AND RESPOND QUICKLY TO CHANGING PROBLEMS AND CONDITIONS.

I FIRMLY BELIEVE THAT THE NATIONAL GOVERNMENT CANNOT AFFORD TO NEGLECT COMMUNITIES CRIPPLED BY FEDERAL AID CUTS AND INCREASED RESPONSIBILITIES, WHICH LACK THE MEANS TO MEET THE BASIC NEEDS OF THEIR CITIZENS.

THERE IS, AND WILL CONTINUE TO BE, A VITAL ROLE THAT OUR NATIONAL GOVERNMENT SHOULD PLAY IN THE DELIVERY OF SERVICES ON THE LOCAL LEVEL. THAT ROLE IS TO GUARANTEE THAT A FISCAL SAFETY NET IS AVAILABLE FOR NEEDY CITIZENS, AND THE COMMUNITIES THEY LIVE IN.

THE TARGETED FISCAL ASSISTANCE PROGRAM, AS PROPOSED BY SENATOR DURENBURGER, WOULD ALLOW THE NATIONAL GOVERNMENT TO CONTINUE PLAYING THIS VITAL ROLE IN THE EVENT THAT FULL FUNDING FOR GRS IS UNATTAINABLE. I THEREFORE URGE THAT IT RECEIVE YOUR SERIOUS CONSIDERATION.

I WANT TO THANK YOU, MR. CHAIRMAN, AND THE MEMBERS OF THIS SUBCOMMITTEE FOR ALL THEIR EFFORTS ON BEHALF OF LOCAL GOVERNMENTS. I APPRECIATE THE CHANCE TO SHARE MY VIEWS WITH YOU.

National
Association of
Regional
Councils

1700 K St., N.W., Washington, D.C. 20006 • Area Code (202) 457-0710

TESTIMONY OF

RICHARD C. HARTMAN

EXECUTIVE DIRECTOR
NATIONAL ASSOCIATION OF REGIONAL COUNCILS

BEFORE THE

SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

ON

S2037, TARGETED FISCAL ASSISTANCE

July 24, 1986
Washington, DC

President
JONATHAN B. HOWES
RESEARCH TRIANGLE, NORTH CAROLINA

First Vice President
SIDNEY J. BARTHELEMY
NEW ORLEANS, LOUISIANA

Second Vice President
T. J. "TED" HACKWORTH
DENVER, COLORADO

Immediate Past President
WILBUR R. DUNK
CONCHO VALLEY REGION, TEXAS

Executive Director
RICHARD C. HARTMAN

MR. CHAIRMAN, THANK YOU FOR INVITING THE NATIONAL ASSOCIATION OF REGIONAL COUNCILS (NARC) TO TESTIFY ON S2037, THE TARGETED FISCAL ASSISTANCE ACT OF 1986.

FOR THE RECORD, MY NAME IS RICHARD C. HARTMAN; I AM THE EXECUTIVE DIRECTOR OF NARC.

BEFORE I GIVE THE SUBCOMMITTEE MY VIEWS ON S2037, I MUST INDICATE THAT NARC CONTINUES TO SEEK THE REAUTHORIZATION OF REVENUE SHARING IN ITS CURRENT FORM. WE HAVE JOINED THE OTHER NATIONAL ASSOCIATION REPRESENTING LOCAL GOVERNMENT IN THEIR ENDEAVOR: IT REMAINS AMONG OUR HIGHEST PRIORITIES AND WE HOPE THE SENATE MATCHES THE EFFORTS IN THE HOUSE AND WILL PASS HR1400 OR COMPARABLE VERSION OF THAT BILL TO EXTEND GRS FOR AT LEAST FOUR MORE YEARS. FURTHER, MR. CHAIRMAN, OUR MAIN PURPOSE IS TO ADDRESS THE PRINCIPLES THAT ARE THE PREMISES FOR S2037. TARGETED FISCAL ASSISTANCE TO LOCAL GOVERNMENTS IN NEED SHOULD BE A HIGH AGENDA ITEM FOR THE FEDERAL GOVERNMENT EVEN WHEN GRS IS REAUTHORIZED; ALBEIT IN A MODIFIED FORM TO ALLOW ITS BENEFITS TO FLOW ONLY TO THOSE LOCAL GOVERNMENTS WITH THE MOST LIMITED FISCAL CAPACITY.

NARC IS THE NATIONAL ASSOCIATION OF OVER 300 REGIONAL COUNCILS OPERATING IN 46 STATES. THESE AGENCIES ARE COMPOSED, IN THE MAIN, OF CITY AND COUNTY GOVERNMENTS, AND THEIR MAJOR MISSION IS TO FACILITATE INTERGOVERNMENTAL COOPERATION AMONG ITS MEMBER

GOVERNMENTS TO ADDRESS INTERGOVERNMENTAL PROBLEMS WITHIN METROPOLITAN AREAS AND RURAL REGIONS.

WE SUPPORT THE CONCEPT OF TARGETED FISCAL ASSISTANCE. AND THE MAIN REASON IS REFLECTED IN YOUR BILL WHICH FINDS THAT "IT IS A RESPONSIBILITY OF THE FEDERAL GOVERNMENT TO HELP ENSURE THAT ALL CITIZENS ENJOY A MINIMUM LEVEL OF BASIC PUBLIC SERVICES." NO OTHER DOMESTIC IMPERATIVE FOR THE NATIONAL GOVERNMENT IS MORE IMPORTANT. IF FEDERALISM MEANS ANYTHING IN OUR CONTEMPORARY SOCIETY, IT MUST RECOGNIZE THAT THE FEDERAL COMPACT REQUIRES THE MORE AFFLUENT PARTNERS, THROUGH THE NATIONAL GOVERNMENT, MUST HELP TO STRENGTHEN AND SUPPORT THE WEAKER ONES, AT LEAST TO PROVIDE THE MINIMUM LEVEL OF PUBLIC SERVICES TO ITS RESIDENTS.

THIS JOINT IS BROUGHT HOME WITH POIGNANCY IN THE RECENT REPORT OF YOUR SUBCOMMITTEE ON THE AFFECTS OF FARM CRISIS ON MANY STATES AND RURAL COMMUNITIES. WE ARE BEGINNING TO SEE GREAT AND GROWING DISPARITIES IN LIVING STANDARDS AND QUALITY OF LIFE BETWEEN THESE RURAL AREAS AND URBAN COMMUNITIES. BUT THERE ARE ECONOMIC DISLOCATIONS AMONG SOME STATES THAT AFFECT BOTH THESE RURAL AND URBAN COMMUNITIES. IN SOME CASES, THEY APPEAR TO BE TRANSITORY, BUT IN OTHERS IT COULD BECOME AN ENDEMIC PROBLEM; THE COUNTRY IS ENTERING THE POST INDUSTRIAL ERA AND OUR NATIONAL ECONOMY IS BECOMING SENSITIVE TO INTERNATIONAL ECONOMIC CONDITIONS.

IN RECENT YEARS A MULTITUDE OF COMMISSIONS AND STUDIES HAVE ADDRESSED THESE ISSUES AS THEY IMPINGE ON FEDERALISM. IN FACT, ONE OF THESE STUDIES APPARENTLY HAS ENCOURAGED YOU AND SENATOR EVANS TO INTRODUCE S2037.

NARC CAN ATTEST TO THE NEED FOR TARGETED ASSISTANCE TO MANY LOCAL COMMUNITIES. I WILL NOT CITE ABSTRACT STATISTICS TO YOU. YOU KNOW AND HAVE DOCUMENTED IN YOUR SUBCOMMITTEE REPORT THE SUBSTANTIAL ECONOMIC PROBLEMS IN MANY PARTS OF THE COUNTRY. BUT I SEE IT VIRTUALLY EVERY MONTH AS I TRAVEL THE COUNTRY VISITING OUR MEMBER REGIONAL COUNCILS. WHETHER IT IS IN HOUSTON WITH DOUBLE DIGIT UNEMPLOYMENT OR IN SOME OF OUR RURAL REGION BESET FARM FORECLOSURES AND BANKRUPTCIES. NEEDLESS TO SAY, THEREFORE, NOT EVERY PART OF THE COUNTRY HAS BENEFITED FROM THE FAVORABLE ECONOMIC CLIMATE WE HAVE EXPERIENCED OVER THE LAST FEW YEARS. THESE DISPARITIES TESTIFY TO THE NEED FOR FEDERAL POLICY AND PROGRAMS TO ALLEVIATE THOSE CONDITIONS WHICH WILL DIVIDE OUR COUNTRY AND ITS COMMUNITIES BETWEEN THE HAVE AND THE HAVE NOTS.

WHILE NO GOVERNMENT CAN PROVIDE EQUAL RESULTS FOR ITS CITIZENS, WE HAVE PRIDED OURSELVES, AND RESPECTFULLY SO, TO STRIVE FOR GIVING EQUAL OPPORTUNITIES. THIS GOAL IS NOT ATTAINABLE IF SOME OF OUR COMMUNITIES DO NOT HAVE THE RESOURCES TO PROVIDE A BASIC LEVEL OF PUBLIC SERVICES TO ITS RESIDENTS.

NOW IF YOU WILL INDULGE ME FOR A FEW MINUTES MORE MR. CHAIRMAN, I WILL SUGGEST A MODIFICATION TO THE BILL WHICH WE BELIEVE WOULD IMPROVE IT FROM OUR PERSPECTIVE:

o AS WE HAVE SAID TFA WILL BE USED EVEN AFTER GRS IS REAUTHORIZED AND FUNDED. BUT WE RECOGNIZE IT WOULD HAVE TO BE SCALED DOWN. IN DOING SO, WE SUGGEST MANY OF THE JURISDICTIONS THAT WOULD RECEIVE FUNDS UNDER TFA BE FUNDED UNDER GRS, AND THE CUTBACK TFA PROGRAM SHOULD BE REFITTED TO GET THE RESOURCES DOWN TO ONLY THOSE COMMUNITIES IN MOST DISTRESS.

o THE NEEDS OF THOSE COMMUNITIES RECEIVING TFA FUNDS WILL BE SO SEVERE THAT IT WILL BE USED IN ITS ENTIRETY TO PROVIDE BASIC SERVICE AND PAY FOR FEDERAL MANDATES. THUS, FROM EXPERIENCE I DO NOT BELIEVE CITIES AND COUNTIES WILL BE ABLE TO ALLOCATE ANY SUBSTANTIAL AMOUNT OF THESE FUNDS TO SUPPORT AND ENHANCE THEIR REGIONAL COOPERATION EFFORTS. BUT THE PAYOFF IN JOINT EFFORTS IN SUCH ECONOMICALLY DEPRESSED REGIONS ARE ENORMOUS. ACCORDINGLY, WE SUGGEST A SEPARATE FUND BE ESTABLISHED AND DISTRIBUTED ACCORDINGLY TO REGIONAL NEEDS, TO EACH REGIONAL COUNCIL THAT ENCOMPASSES TWO OR MORE COMMUNITIES REQUIRING TFA ASSISTANCE. THESE FUNDS WOULD BE DEDICATED TO COOPERATIVE EFFORTS THAT WOULD SUPPORT AND BENEFIT THE TFA COMMUNITIES.

IN CONCLUSION, MR. CHAIRMAN, WE BELIEVE S2037 IS ON THE RIGHT TRACK. YOU AND YOUR SUBCOMMITTEE ARE TO BE COMMENDED FOR YOUR ENLIGHTENED APPROACH TO REALLY MAKE FEDERALISM WORK. WE STAND READY TO ASSIST YOU IN ANY WAY WE CAN.

THANK YOU AGAIN.

Testimony of
The Hon. Edward I. Koch
Mayor of the City of New York
Before the
Senate Governmental Affairs
Subcommittee on Intergovernmental Relations

July 24, 1986

Mr. Chairman and Members of the Subcommittee:

I am pleased to testify before this Committee regarding the critical importance of General Revenue Sharing to the nation's 39,000 counties, cities, towns, villages and Indian tribes. I strongly support the current General Revenue Sharing program. It has a proven track record of effectiveness and it provides our nation's 39,000 municipalities with the funds necessary to pay for many essential services. S.2037, which proposes an alternative formula to the existing General Revenue Sharing formula, while well-intended is particularly inappropriate at this time when the continuation of General Revenue Sharing,itself, is in jeopardy.

It is no exaggeration to state that General Revenue Sharing is fighting for its survival this year. Gramm-Rudman should not be used as an excuse to make GRS the only federal program to be terminated at the end of the current fiscal year. If GRS is to survive, and it is most critical that it does for the nation's distressed farm belt and oil producing communities as well as the nation's hard-pressed inner cities and impoverished rural areas, then the program must remain intact. Any major retargeting of GRS benefits will only hinder the chances of continuing this time-tested and carefully crafted program.

There are as many arguments for continuing the $4.6 billion General Revenue Sharing program as there are units of local government in this nation. GRS meets the real needs of communities. Each local government is able to use General Revenue Sharing funds based upon the needs of their communities. In New York City, GRS pays for teachers, in Boston, it pays for police, and in Dade County, Florida it pays for senior programs. Across the nation, GRS is used for the basic local services we all depend on: 18.5% of revenue sharing funds is used for police, 14% for street maintenance, 9.8% for fire protection, 8.1% for education, 7.1% for health and hospitals, 6.2% for sanitation and sewerage, 4.9% for parks, 2.6% for public welfare and 2.4% for corrections.

GRS represents nearly 7 percent of taxes raised by local governments across the nation [not counting special districts]. While large urban cities and counties receive the largest dollar amounts of revenue sharing, the smaller, more rural local governments rely far more heavily on GRS for supporting local services. For instance, GRS represents over 20% of taxes raised by local governments in Arkansas and West Virginia and just 3.5% of taxes raised by local governments in New York.

Pelican Township in South Dakota is one of thousands of examples of the urgent need for GRS. This small farming community of 460 is in the throes of the farming crisis. This community is dependent on GRS to pay for citically needed snow removal and bridge repair.

There are those who say that the Federal government cannot afford GRS. Local governments, however, can not afford the elimination of GRS. The result of eliminating this $4.6 billion program will be tax increases and cuts in essential services across the nation.

It is ironic that an Administration that vows there should be no tax increase for Americans is virtually guaranteeing one at the local level by withdrawing support for GRS. And it is middle and lower-income taxpayers who will bear the burden of higher local property and sales taxes. In contrast, the Federal tax system, with its broader base and progressive rate structure, does not impose such disproportionate burdens on middle-and lower-income taxpayers.

The name revenue sharing is a great misnomer. The program was never intended to share federal surpluses, but was enacted to offer the broad tax base of the federal government to support vital local services. When General Revenue Sharing was enacted in 1972, the Federal government shared 2.5 percent of its revenues with state and local governments. Today, 14 years later, it shares only one half of one percent. To fault revenue sharing for our federal deficit problem is clearly misplaced.

Federal aid to local governments has been on the chopping block since 1980. The Congressional Research Service reports a 24 percent reduction in federal grants to state and local government, from 1980 to 1985, after adjusting for inflation. The elimination of GRS and the continuation of the Gramm-Rudman Deficit Reduction Act may mean even deeper reductions over the next few years. They might call it Reaganomics in Washington, but it is Rambonomics in communities across the land.

Three years ago, at the signing of the reauthorization of GRS, President Reagan declared that "the Federal government never spent money more wisely than by devoting it to revenue sharing." General Revenue Sharing remains the wisest way to spend federal tax dollars because it provides a flexible and reliable revenue source to meet the needs of each community, and is not required to be spent for any narrow purpose. It truly is a program for the needs of all Americans--senior citizens, children, the infirm, the poor and middle-income families.

Revenue sharing helps pay for more than city and county bills. It helps pay the nation's bills -- the cost of mandated federal standards to achieve clean air, clean water, access for handicapped persons and other worthy national policy goals. Local governments are given the mandates but not the money. General Revenue Sharing helps local governments absorb some of these mandated costs.

GRS is a product of bipartisan national support. The program has been reauthorized three times since its enactment in 1972. Now in 1986, it is more crucial than ever to reaffirm the need for GRS and reauthorize the program. I urge your support for an extension of the General Revenue Sharing Program.

Statement of John Horsley

President

National Association of Counties

Submitted to

The Subcommittee on Intergovernmental Relations

of the Committee on Governmental Affairs

United States Senate

on

Local Fiscal Assistance

August 14, 1986

Mr. Chairman:

The National Association of Counties is delighted that the Intergovernmental Relations Subcommittee is holding hearings on federal assistance to local governments. These hearings, combined with the Subcommittee's recent outstanding report on rural governments and the farm crisis, help to focus national attention on the serious fiscal plight of many local governments.

In recent years, the federal government has dramatically cut its fiscal support for state and local governments. A Congressional Research Service study earlier this year found that federal aid to states and localities dropped by 23.5% (in constant dollars) between 1980 and 1985. This happened despite the 23.3% increase in federal spending taking place over this same period.[1/] Currently, the federal government is debating whether or not to reauthorize the General Revenue Sharing program (GRS). For the federal government, with its record FY 1987 $1.1 trillion budget, to propose cutting GRS on grounds that "we have no revenue to share", is disingenuous at best. In fact, the federal government is spending more this year than ever before in

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[1/] Congressional Research Service, "The Effect of Federal Tax and Budget Policies in the 1980's on the State-Local Sector," by Lillian Rymarowicz and Dennis Zimmerman, p. 6 (1986).

our nation's history; what is actually happening is that state and local governments are being shortchanged by federal decisions to allocate more federal spending to activities considered to have a higher political priority.

With the relentless federal cutbacks of the past several years, General Revenue Sharing is now needed more than ever. Even though federal support is declining, federal mandates imposed by Congress or the courts continue to dictate to state and local governments the expenditure of substantial money on national priorities such as waste water control, toxic wastes, and corrections facilities. Only last year, congressional enactment of the Fair Labor Standards Act resulted in imposition of an estimated $1 billion of added costs onto state and local governments. General Revenue Sharing, as a source of unrestricted federal funds, is a needed means for localities to meet these often underfunded or unfunded federal mandates. Moreover, as other federal programs are cut, GRS is the only federal money available to localities to help them meet the highest priority needs created by the withdrawal of federal responsibility.2/

In a $1.1 trillion federal budget, there is room for $4.6 billion in local fiscal assistance. To conclude other-

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2/ Attachment I presents the NACo policy position on GRS, adopted at our annual convention this July.

wise is to deny localities funds that they often desperately need. Consider, for example, communities that have been hit by the farm crisis. Attachment II is a report commissioned by the National Association of Counties, documenting the impact of cuts in federal assistance, including the proposed curtailment or elimination of GRS, on communities in farm states. The report amply demonstrates the impact on state and local revenues of declining farm sector incomes, sales, and property values. In FY 1985, GRS provided money amounting to over 10% of average county tax revenues in a majority of the 15 most farm dependent states: Arkansas (29.7%), Mississippi (22.4%), Kentucky (21.2%), Idaho (17.8%), North Dakota (13.9%), Montana (11.2%), South Dakota (10.8%), and Nebraska (10.1%). The proposed curtailment or elimination of GRS would remove this federal cushion just when farm communities need it most.

GRS similarly provides a fiscal cushion for communities dependent upon other troubled economic sectors. The plunge in energy prices means states and localities in Texas, Oklahoma, Louisiana, North Dakota, and Montana are struggling to maintain public services in the face of plummeting state and local revenues. For communities in the 18 states that have had to cut their spending below budgeted levels during the current fiscal year, GRS provides a firm cushion against cyclical declines in economic fortune. It is the essence of our federal system that we help one another in times of unexpected financial need. Today GRS is the single most effective component in such fiscal federalism.

The Subcommittee hearing focused on Targeted Fiscal Assistance (TFA) as an alternative to General Revenue Sharing. The National Association of Counties shares your goals in seeking the most effective allocation of federal dollars to serve local needs, and recognizes your leadership in attempting to create a rational and fair fiscal relationship between the federal government on the one hand and states and localities on the other. Thus, it is as a constructive contribution to your subcommittee's deliberations that we offer the following comments on targeted fiscal assistance.

As a conceptual matter, there appear to be two problems with Targeted Fiscal Assistance as presented at the hearings. First, TFA is funded at only half of the FY 1985 GRS funding level. Instead of being funded at $4.6 billion GRS levels, TFA would only be funded at $2.3 billion.

Secondly, TFA raises difficulties because it changes the current GRS formula. As a matter of timing, it is awkward at best to open a dispute over the GRS formula at a time when the very future of local federal assistance has been called into question. Given the few months available to this Congress to obtain reauthorization of GRS, a formula fight is more likely to result in protracted debate than to result in a working program.

This is reflected in the Subcommittee hearings themselves. Many of the invited witnesses -- Senator Dan Evans, Representative Harley Staggers, Donald Slater, Professor Alvin Sokolow, and Milton Morris -- proposed changing the TFA formula, each in a different direction. While everyone can agree that targeting is theoretically attractive, profound differences emerge when a particular formula is put on the table. Whether they would win or lose under a particular allocation, localities cannot afford a divisive fight over the formula for targeting local fiscal assistance.

Moreover, because economic indicators used in the TFA formula inevitably lag a number of years behind actual economic events, TFA hurts rather than helps a surprising number of deserving recipients. At the hearings themselves, for example, GAO observed that the cities of Dallas and Houston, especially the latter now suffering from the depression in the oil industry, each would lose between 70% and 80% of GRS benefits under a targeted formula. This would come in addition to a loss of benefits if the overall level of local assistance were also cut.

Similarly, TFA would be damaging for many communities in the farm states. Table 1, below, presents the ten states with the highest proportion of farm dependent non-metro counties. Communities in six out of the ten states would lose under TFA compared to the current GRS allocation. Five out of the six losing states (North Dakota, Nebraska, Iowa, Minnesota and Kansas) have been designated as fiscally stressed in a staff study by the Advisory Commission for Intergovernmental Relations.[3] Again, these losses under TFA would be even greater if accompanied by a general cut in the funding level for local fiscal assistance.

Thus, while targeting may be conceptually attractive, this particular TFA formula has not yet been refined to the point where it should become the focus of a divisive formula fight. Once re-enactment of GRS has been assured, we would be eager to examine these matters of allocation with you and your staff in greater detail.

I greatly appreciate the invitation to submit this statement to the Subcommittee, and respectfully request that it be included in the printed hearing record along with the attachments. In closing, let me again commend the Subcommittee for drawing national attention to issues of

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[3] ACIR staff, "The Agricultural Recession: Its Impact on the Finances of State and Local Governments," Table 1, p. 8 (June 1986).

TABLE 1

Comparison of Funding Levels Under General Revenue Sharing and Targeted Fiscal Assistance for Communities in Farm States

State	FY 1985 GRS Payments (millions)	TFA at $2.3 Billion Funding Level (millions)	GRS at $2.3 Billion Funding Level (millions)	TFA: % Change From Full GRS Fundin
North Dakota*	$12.9	$6.2	$6.4	- 51.5%
Nebraska*	29.4	13.1	14.7	- 55.3%
South Dakota	14.3	7.4	7.2	- 48.7%
Iowa*	56.5	25.2	28.3	- 55.4%
Montana	19.4	12.1	9.7	- 37.7%
Minnesota*	90.2	40.7	45.1	- 54.9%
Arkansas	46.0	26.3	23.0	- 42.8%
Kansas*	39.7	17.8	19.9	- 55.1%
Idaho	19.6	11.0	9.8	- 43.9%
Missouri*	78.4	37.3	39.2	- 52.4%

* Indicates the six out of ten farm states where GRS provides greater help than TFA (If both were funded at a $2.3 billion level)

Source: U.S. Treasury Department

federal-local relations at a time when they are being called into question. The subcommittee and its talented staff, including Margaret Wrightson, Dr. Timothy Conlan, and Susan Galonka, has become a valuable resource on matters of federal-local relations. We value the Subcommittee's ongoing contribution to these important questions, and look forward to continuing to work with you on our many issues of mutual concern.

Attachments

1. NACo Resolutions regarding GRS - from 1986 National Meeting - Clark County, Nevada, July 15, 1986.

    1(a) Proposed Resolution on the Federal Budget

    1(b) Resolution on Genreal Revenue Sharing

2. NACo Report, "The Impact of Declining Federal Support on States Affected by the Farm Crisis".

NATIONAL ASSOCIATION OF COUNTIES
RESOLUTION ON THE
FEDERAL BUDGET FOR FISCAL YEAR 1987

WHEREAS, the National Association of Counties supports efforts to reduce federal deficit; and

WHEREAS, the National Association of Counties supports both a strong national defense and a strong effective system of providing for the domestic needs of all Americans; and

WHEREAS, during the past five years grants-in-aid to state and local governments have decreased in real dollars by nearly twenty-five percent; and

WHEREAS, the current federal deficit has grown dramatically at a time when there have been major increases in spending for interest payments on the national debt, defense and non-means-tested entitlements; and

WHEREAS, America's county governments are required to balance each of their budgets every year and make difficult choices between programs that meet the needs of their constituents and the desire to keep taxes as low as possible; and

WHEREAS, the vast majority of America's counties, as a result of federal budget cuts, have had to make tough decisions to raise taxes and/or make difficult cutbacks; and

WHEREAS, in dealing with the issue of federal deficit reduction, Congress is faced with similar tough decisions;

THEREFORE, BE IT RESOLVED, that the National Association of Counties recognizes the need to provide broad based sources of revenues at the federal level as part of an overall deficit reduction package, including equitably balanced spending reductions in domestic, defense and foreign aid expenditures;

BE IT FURTHER RESOLVED, that the National Association of Counties calls for no further cuts in domestic programs that are integral to the continuation of the intergovernmental partnership and to the ability of counties to respond to the mandates of federal and state government and the inherent needs of the people themselves.

Adopted by the Board of Directors - July 13, 1986.

NATIONAL ASSOCIATION OF COUNTIES
RESOLUTION ON
GENERAL REVENUE SHARING

WHEREAS, the General Revenue Sharing program is the most effective, efficient and flexible federal program providing essential services to county and local governments; and

WHEREAS, the General Revenue Sharing program effectively enables local communities to use the funds as they see fit based on locally determined needs; and

WHEREAS, the General Revenue Sharing program has been used since 1972 to effectively share the more progressive, elastic federal income tax rather than further burden the regressive, limited local property tax base; and

WHEREAS, county governments supported and took more than their fair share of budget cuts in 1981 and 1982, and are slated for even larger cuts in federal assistance in 1986; and

WHEREAS, General Revenue Sharing is the only federal program which most county governments can use to fill the gaps caused by cuts in other federal programs; and

WHEREAS, the General Revenue Sharing program through its basic requirements furthers national objectives such as equal opportunity, non-discrimination, equal access for the handicapped, audit standards compliance of local governments; and

WHEREAS, over sixty percent of county governments now use their General Revenue Sharing funds for services to the poor and disadvantaged; and

WHEREAS, General Revenue Sharing is the only federal program most county governments have to meet federal, state and court mandates for such purposes as environmental clean-up, jail construction and indigent health care; and

WHEREAS, the General Revenue Sharing program is an entitlement program currently authorized through fiscal year 1986; and

WHEREAS, the elimination of the General Revenue Sharing program would be an unfair hardship on county governments many of which have or will have set their budgets and tax rates based on the receipt of the GRs entitlement; and

WHEREAS, long-term county government debt as of 1982-83 stood at $52.3 billion (higher than county revenues for that period), and has been growing at a rate of 20 percent per year since 1966 (faster than the federal government debt); and

WHEREAS, funding for the General Revenue Sharing program for local governments has remained fixed at $4.566 billion since 1976 and was reduced by one-third in 1980 with elimination of state governments; and

WHEREAS, proposals to target General Revenue Sharing funds to "distressed communities" in 1986 are inappropriate, untimely and unfair because GRS is now targeted based on per capita income and tax effort and GRS is a relatively small percentage of overall federal assistance to state and local governments; and

THEREFORE, BE IT RESOLVED, that the National Association of Counties reaffirms its previous position that General Revenue Sharing is its highest legislative priority and, hereby, strongly urges the United States Congress to reaffirm its commitment to the General Revenue Sharing program as the cornerstone of the federal-local partnership by including it in its 1987 budget at full funding with no changes in the current formula or distribution.

Adopted July 14, 1986.

NATIONAL
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"The Impact of Declining Federal Support on States Affected by The Farm Crisis"

by
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July 7, 1986

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EXECUTIVE SUMMARY: THE IMPACT OF DECLINING FEDERAL SUPPORT ON STATES AFFECTED BY THE FARM CRISIS

I. Introduction

This paper examines the impact on farm states and communities of cuts in federal programs, and especially the proposed elimination of General Revenue Sharing (GRS).

Agriculture is undergoing significant financial distress brought on by high farm production, low commodity prices, declining export markets and dropping farm values. Substantial restructuring is taking place to adjust to the new economics of farming. These agricultural developments have adversely affected state and local governments and these effects are compounded by cuts in federal support for programs essential to farm communities.

II. The Farm Crisis

The farm crisis affects first and foremost individual farmers and their families. From 1980 to 1984, real net farm income was nearly 40% lower than the average farm income of the 1970's. Moreover, farmlands have steadily declined in value since 1981. Nationwide, agricultural land values have fallen more than 30%, from $823 per acre in 1982 to $596 per acre in 1986. Farm land values fell by a total of $146 billion in 1982-85, a tremendous loss in individual wealth.

A 1985 USDA survey found about 213,000 farms, or nearly 13% of the 1.7 million enterprises represented, with debts equal to 40% or more of the value of their assets, and negative cash flows. Financial experts view such farms as being the most likely to go out of business. In Idaho, twenty-one percent of farmers say they expect to be out of business within a year; in Texas 15%, and in Nebraska, Missouri and Kansas six percent, say this will be their last year.

The farm crisis also affects non-farm businesses. When farm commodity prices fall, related industries such as fertilizers, pesticides, fuel, equipment, farm machinery, credit, labor and agricultural services also suffer. An Iowa State University study estimates that the depressed condition of farm construction and machinery firms, for example, caused estimated losses of $26.2 billion in total output in the years 1977-1984. This amounted to a loss of

327,000 jobs and $6.4 billion in personal income.

III. The Condition of Farm State Governments

This year, seven of the ten ranking farm states examined in this report -- North Dakota, Nebraska, Iowa, Montana, Minnesota, Arkansas and Idaho -- have been forced to cut their FY 1986 budgets as a result of revenue shortfalls.

In addition, these states have come under increasing pressure to provide emergency programs and financial support to farmers, and this means increased public spending for interest rate buy-downs, deferrals and other aid to farmers in debt.

IV. The Condition of Local Government in Farm States

The farm crisis is also a crisis for farm communities. Local governments must provide new services such as counseling and job training to their citizens. Outmigration reduces community strength. Communities also suffer when the decline in agricultural property values threatens to reduce property tax revenues, the mainstay of the local tax base.

Thirteen out of fifteen farm states lost over one-fifth of the value of their farm land between 1981 and 1986, including three where values dropped by over 50%: Iowa (-59%), Nebraska (-55%), and Minnesota (-55%).

In addition, local tax bases have been buffeted by sizable increases in property tax delinquency rates. One study found that in Nebraska communities, delinquent taxes increased seven-fold between 1980 and 1985, while delinquencies in communities in Iowa, Kansas, Minnesota and Montana more than doubled over the same period.

A combination of declining local revenues, increasing demand for local services for farmers in distress, and potentially declining state assistance to localities will make it increasingly difficult, and eventually impossible for communities to fund local services at adequate levels. Rural America simply cannot replace programs threatened by federal cutbacks.

V. The Impact of Federal Cutbacks on Communities in Farm States

A. Federal Programs for Rural Communities

The federal government has cut support for state and local governments by an average of 23.5% (in constant dollars) from 1980 to 1985. Moreover, the Administration's proposed cuts in federal support to state and local government for fiscal year 1987 would exceed projected fiscal year 1986 surpluses for all but one of the fifteen farm states in this report.

In fiscal years 1980-1986, there have been major cuts in programs needed by rural communities: the Farmers Home Adminstration, Appalachian Regional Commission, Economic Development Administration, EPA construction grants, Community Services Block Grants, Community Development Block Grants, and General Revenue Sharing. Altogether this amounts to billions of dollars in rural service reductions.

B. The Impact on Farm Communities of Eliminating General Revenue Sharing

Of the federal programs proposed to be cut in FY 1987, General Revenue Sharing is the most important for rural communities. In FY 1986, GRS will provide $912.1 million to localities in the fifteen farm states included in this study. In the years since the beginning of General Revenue Sharing in 1972, through the 1986 payments, General Revenue Sharing will have provided a total of $19 billion to the fifteen states.

Because General Revenue Sharing is one of the few federal grant programs available to smaller rural localities, its elimination will hit farming communities especially hard. On average, while revenue sharing constitutes 21.8% of federal aid to general purpose localities, GRS constitutes 44.5% of federal aid received by general purpose localities in farm-dependent areas.

GRS also represents a high percentage of tax revenues of those local farm communities. In 1985, GRS provided money amounting to over 10% of the average county tax revenues for six of the ten ranking farm states in the present study: Arkansas (29.7%), Idaho (17.8%), North Dakota (13.9%), Montana (11.2%), South Dakota (10.8%), and Nebraska (10.1%). Again, these averages are higher than the national average for all counties in the United States. If eliminating GRS forced communities to cut services across the board, farm localities would have to eliminate thousands of police officers, firefighters, human service workers, and street maintanence workers. Human services such as senior citizens assistance and other discretionary programs such as community development would be the most vulnerable to cuts.

In short, the withdrawal of revenue sharing funds will hurt farm communities at a time when they can't take up the slack. Beset by declining economies and their own shrinking revenue bases, farm communities will be forced to pare services needed by their citizens. For the national government, with its record trillion dollar FY 1987 budget to claim that "we have no revenue to share" is to undercut the financial basis of mutual support farm communities rightfully expect of our federal system.

THE IMPACT OF DECLINING FEDERAL SUPPORT ON STATES AFFECTED BY THE FARM CRISIS

I. Introduction

Agriculture is undergoing significant financial distress brought on by high farm production, low commodity prices, declining export markets, and dropping farm values. Substantial restructuring is taking place to adjust to the new economics of farming. These agricultural developments have adversely affected state and local governments and their effects are compounded by cuts in federal support for programs essential to farm communities.

This paper examines the impact on farm states and communities of cuts in federal programs, and especially the proposed elimination of General Revenue Sharing. The states considered will be those with the greatest percentage of farm dependent counties. They tend to be located in the Corn Belt and the Northern Plains, where the farm crisis has struck most intensively. In particular, we shall focus on the ten states with the greatest percent of farm-dependent counties (See Table 1): North Dakota, Nebraska, South Dakota, Iowa, Montana, Minnesota, Arkansas, Kansas, Idaho, and Missouri. We shall also touch upon other states including the next five ranking states with the greatest percent of farm-dependent counties: Colorado, Kentucky, Illinois, Texas and Mississippi. In the 15 top-ranking states, according to the U.S. Department of Agriculture (USDA), the number of agriculture-dependent non-metro counties ranges between 23% and 74% of all counties in the state.[1]

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[1] The USDA considers counties to be agriculture-dependent if a weighted average of at least 20 percent of wages and proprietors' income in the years 1975-1979 came from farming. Twenty-nine percent, or 702 counties out of all 2,443 non-metro counties, meet that criterion. By focusing on the non-metro counties, the USDA omits consideration of farming near metropolitan areas (especially dairy farming and truck farming) where the impact of declining farm incomes and lower land values has not been as severe. See Bender, *et al.*, *The Diverse Social and Economic Structure of Nonmetropolitan America*, USDA, ERS Rural Development Research Report, pp. 3-5 (1985), and Ross and Green, *Procedures for Developing a Policy-Oriented Classification of Nonmetropolitan Counties*, ERS Staff Report (1985).

Table 1. Continental U.S. States Ranked by Percent of Non-Metro Farming-Dependent Countries

State	Total number of Counties	Number of Non-Metro Farming-Dependent Counties 1/	% of Counties Farming-Dependent
North Dakota	53	39	74
Nebraska	93	64	69
South Dakota	66	42	64
Iowa	99	54	55
Montana	57	24	42
Minnesota	87	35	40
Arkansas	75	29	39
Kansas	105	40	38
Idaho	44	16	36
Missouri	115	36	31
Colorado	63	18	29
Kentucky	120	35	29
Illinois	102	29	28
Texas	254	61	24
Mississippi	82	19	23
Washington	39	9	23
Wisconsin	72	15	21
Georgia	159	32	20
Florida	67	13	19
New Mexico	32	6	19
Oklahoma	77	15	19
California	58	10	17
Indiana	92	14	15
North Carolina	100	15	15
Oregon	36	5	14
Utah	29	3	10
Alabama	67	6	9
Louisiana	64	6	9
Wyoming	23	2	9
Vermont	14	1	7
Nevada	17	1	6
Michigan	83	2	2
South Carolina	46	1	2
Virginia	136	3	2
Ohio	88	1	1
Tennessee	95	1	1
Total		702	

1/ Non-metro indicates that no place in the county had population exceeding 50,000 in 1974. In the continental U.S., there are 2,443 non-metro counties and 626 metro counties for a total of 3,069.

Farming-Dependent county indicates that during the 5 years (1975-79) agriculture/ranching production accounted for 20% or more of labor and proprietor income.

Source: U.S. Department of Agriculture,
Economic Research Service, 1985

The paper is divided into five sections, including this introduction. The context of the farm crisis is presented in the second section, including analysis of the number of distressed farms, declining farm incomes, and effects on related commercial enterprises from the farm crisis. The third section analyzes the condition of state governments, including the impact of the farm crisis on state budgets and the increased demand for state emergency programs. Section Four examines the condition of local governments, including the impact of declining farm property values, increasing tax delinquencies and foreclosures, and increased demands for local services. Finally, Section Five analyzes the impact on local governments in the farm states of cuts in federal programs, especially General Revenue Sharing. Revenue sharing provides special support to farm areas, often amounting to a third, half or even two-thirds of all federal support to local governments in farm regions. For farm communities, the federal cutbacks could not come at a worse time.

II. The Farm Crisis

Agriculture is in crisis because of high levels of farm debt and declining land values and farm incomes. U.S. farmers are still producing for export markets that began declining in 1982. Overproduction relative to foreign and domestic demand has depressed commodity prices, which in turn has reduced farm income, driven down land prices and stressed major agricultural institutions including the farm credit system. Historically high real interest rates and the strength of the dollar have also contributed to the problem. The U.S. share of foreign markets has dropped under pressure from foreign competitors that have greatly increased their agricultural production capacity. As a result, U.S. agricultural exports fell by over 35 percent, from $43.8 billion in fiscal year 1981, to about $28 billion forecast for fiscal year 1986.2/ The farm crisis has profoundly affected both individual farmers and the economies of the state and local governments in farming regions.

The farm crisis affects first and foremost individual

2/ Congressional Research Service, "Agriculture and the 99th Congress: Overview," updated 5/21/86, P.5. Among the states in this report with a relatively high dependence on export agriculture are North Dakota, Kansas, Montana, Iowa, Nebraska, Minnesota, Missouri, South Dakota, Idaho, and Arkansas. GAO, Financial Condition of American Agriculture, p.10, (October 1985).

farmers and their families. From 1980 to 1984, the Department of Agriculture reports that real net farm income averaged only $25 billion (in 1982 dollars), down nearly 40% from the average farm income of the 1970s.[3]

Farmers in most farm states have suffered major losses in net farm income. In Iowa in 1983, for example, net farm income was a negative $1,891 per farm. In South Dakota, annual net farm income has dropped by one-third over the last ten years, from an average of $750 million (in 1982 dollars) in 1975-1979 to $500 million in 1980-1984. Mississippi, already one of the poorest states in the U.S., has been hit even harder. Over the same period, the state's annual net farm income (in 1982 dollars) dropped 58.5%, from an average of $680 million in 1975-79 to $282 million in 1980-84.

This decline in farm income has been compounded by a steady decline in the value of farm lands since 1981. Nationwide, agricultural land values have fallen by more than 30%, from $823 per acre in 1982 to $596 per acre in 1986. The U.S. Department of Agriculture estimates that farm land values fell by a total of $146 billion between

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[3] USDA, Economic Research Service, Farm Income Data: A Historical Perspective, Table 2, p. 15, (May 1986).

1982 and 1985, a tremendous loss in individual wealth.[4]

Farmland prices had risen substantially in the 1970's, leading many farmers to assume unusually large debt burdens. During the 1970's, total farm debt rose by 213 percent, from $53 billion to $166 billion. Now land values have dropped, leaving many farmers saddled with substantial and sometimes unbearably high debt compared to their assets.

A 1985 USDA survey found nearly a third of all commercial-sized (farms with annual sales over $40,000) in financial difficulty. About two-thirds of those farms are financially stressed, with high debt load and negative cash flow, while another third are at risk because of high debt loads, even though they had positive cash flow the year before. Farms with annual sales between $40,000 and $250,000, the "family-sized farms", tend to be in trouble. On the whole, smaller and larger farms seem to be in better shape, although many also have cash flow and debt problems.[5] Altogether, about 213,000 farms, or nearly 13 percent of the 1.7 million enterprises represented in the survey, had debts equal to 40 percent or more of the value of their assets, and negative cash flows as of January 1, 1985. Financial analysts view farms with these characteristics as being the most likely to go out of business.

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[4] The Senate Subcommittee on Intergovernmental Relations, Governing the Heartland: Can Rural Communities Survive the Farm Crisis, May 1986, p.6 (Hereafter: "Senate Subcommittee Report".) See generally, USDA, Economic Research Service, Farm Real Estate: Historical Series Data, 1950-85, Table 1, p.3 (December 1985).

The 1986 Midwest Farm Finance Survey includes information on farm debt-asset ratios in six states in the present survey. All had significant proportions of distressed farmers with debt-asset ratios above 40 percent: Iowa (38.3% of farmers), North Dakota (37.8%), Nebraska (36.8%), Kansas (30.8%), Illinois (29.3), and Missouri (21.2%).[6] Sixty percent of the financially stressed farms are concentrated in the Corn Belt, Lake States, and Northern Plains. This is also the region where the steepest drop in farm land value has occurred.

Farmers have held on tenaciously, but are beginning to drop off after five years of declining farm prices and land values. Twenty-one percent of Idaho farmers say they expect to be out of business within a year. In Texas, over 15 percent of farmers have told the State Agriculture Department this will be their last year in farming. In Nebraska, Missouri and Kansas, about six percent have said this will be their last year. Other major agricultural states report similar figures, with many farmers carrying on only because of bumper crops last fall and large government subsidy payments.[7/]

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[5] Financial Characteristics of U.S. Farms, January 1985, p. vi; Farm Sector Financial Problems: Another Perspective, p. 14.

[6] Neil E. Harl, Institute for Economic Research, University of Iowa, "The Two Crises in Agriculture", Table 1 (June 1986).

The farm crisis also affects non-farm businesses. When farm commodity prices fall, related industries such as fertilizers, pesticides, fuel, equipment, farm machinery, credit, labor and agricultural services (e.g., tilling, harvesting) also suffer. [8/] For example, the number of farm implement dealerships in Nebraska has fallen 13% since December 31, 1983. Manufacturing in Nebraska, which is based primarily on farm equipment and food processing (both farm-oriented industries), has lost over 10,000 jobs from 1979 to 1985, declining 11%.

[7/] "Survey Finds Idaho Farm Crisis Worsens", Idaho Statesman, June 4, 1986, p.1. "Many Quit Farming As Credit Crisis Dims Hopes," Washington Post, June 3, 1986, p. 1.

[8/] Fred Hines, Mindy Petrulis, and Stan Daberkow, Economic Development Division, Economic Research Service, U.S. Department of Agriculture, "An Overview of the Non-Metro Economy and the Role of Agriculture in Non-Metro Development" (Undated).

An Iowa State University study estimates that the depressed condition of farm construction and machinery firms caused estimated losses of $26.2 billion in total output in the years 1977-1984. This amounted to a loss of 327,000 jobs and $6.4 billion in personal income. The Farm and Industrial Equipment Institute reports that only 20,193 large tractors (40 horsepower and above) were sold in 1984, compared to 54,728 in 1979; 3,263 combines, balers, and harvesters were sold in 1984, down from 9,462 five years earlier.[9]

In North Dakota, Steiger Tractor has recently filed for Chapter 11 Bankruptcy Protection. In Illinois, companies such as John Deere, Caterpillar, and International Harvester have laid off thousands of workers, devastating many of the state's western industrial pockets. Unemployment in the Quad Cities Region, which contains large farm equipment manufacturing plants, currently runs near 15%, twice the national rate.

The Senate Subcommittee on Intergovernmental Relations studied nine rural Minnesota counties to determine the impact of declines in farm income on the local economy; the study found that for each dollar decline in net farm income, merchants in farm areas will lose almost twenty cents, and that a long-term decrease of $64,000 in net farm income reduces local commercial employment by one job. Altogether the nine rural counties had 15% fewer commercial sector jobs than there would have been without the current drop in farm income. While these figures must be used with care and cannot automatically be projected to other areas, it is clear that local businesses cannot thrive while their farm customers fail. [10]

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[9] Cited in GAO, Financial Condition, op.cit., p. 40.

Because they are carefully observed by federal regulators, banks provide the most readily documented example of the impact of the farm crisis on non-farm enterprises. In 1984, 32 of the 78 bank failures (41%) nationally were agricultural banks. In 1985, 68 of the 118 bank failures (58%) were agricultural banks. As the Farm Credit Administration reports, "Traditionally, agricultural banks have experienced low loss and failure rates; however, the rapid deterioration in farm finance has altered the picture substantially, forcing the agricultural banks to curtail their lending activities."[11]

The Farm Credit Administration reports a withdrawal of commercial banks from agricultural lending in the past year, and attributes this to their diminished financial performance. Net charge-offs of farm production loans at all commercial banks totalled $1.3 billion in 1985, up from $900 million in 1984. Total charge-offs represented 3.7% of the farm loans outstanding at year end 1985, versus 2.2% for year end 1984.

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[10] Senate Subcommittee Report, op. cit., pp. 14-16.

[11] Farm Credit Administration, Office of Adminstration, Summary Report of Condition and Performance of the Farm Credit System, Quarter Ending December 31, 1985, issued May 13, 1986, p. 6.

Loan delinquency rates for agricultural banks have continued to rise, indicating that future charge-offs are likely to remain high. At year end 1985, total nonperforming loans amounted to 4.5% of the total agricultural lending portfolio of commercial banks, compared with 3.6% a year ago. As of September 30, 1985, nonperforming and delinquent loans held by the major government and private lenders amounted to $25.7 billion, or about one-sixth of their total outstanding principal. Ultimately, loan losses from farm bankruptcies could amount to $10-$20 billion or more.[12]

Net earnings of agricultural banks reflect the adversity that has hit the farm sector since 1981. In 1985, 18% of rural banks had negative earnings, compared with 12% in 1984. The average return equity for agricultural banks was only 6% in 1985. Moreover, the number of high-concern banks continues to increase. At the end of 1985, there were 806 commercial banks with problem loans that exceeded the bank's total capital. Of this total, 332 were agricultural banks. Thus, although agricultural banks are only 28% of all banks, they account for 41% of the problem banks.

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[12] General Accounting Office, Farm Finance: Farm Debt, Government Payments and Options to Relieve Financial Stress (March 1986); Food and Agriculture Policy Research Institute, (FAPRI), "Summary Report: Economy-wide Impacts of the Farm Financial Crisis," July 1985 (Revised); Financial Condition, p. 3.

Of course, when farm lenders get into trouble, they are less able to be lenient with their borrowers. The Farmers Home Administration (FmHA), which holds more than a million acres of repossessed land, has invoked tough new rules that will cut off farmers in greatest trouble. The relentless economic adjustment process will continue until farm prices increase, permitting farmers to pay their creditors; for thousands of heavily indebted farmers and their depressed communities, no such relief is in sight.[13]

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[13] Neil E. Harl, op. cit. "The Two Crises in Agriculture",(1986) "Farm Economy Slump May Be Near End But Any Recovery Will Be Slow and Uneven," Wall Street Journal, June 3, 1986, p.6.

III. The Condition of Farm State Governments

When farmers and farm-dependent businesses lose income, they pay less income taxes; when they reduce spending, they pay less sales taxes. The result can be a serious and rapid decline in state revenues from these taxes. In FY 1986, 18 states have been forced to cut back their spending from budgeted levels in the middle of the fiscal year as a result of revenue shortfalls.[14/] These include seven of the ten heavily farm dependent states examined in this report: North Dakota, Nebraska, Iowa, Montana, Minnesota, Arkansas, and Idaho.

The Advisory Commission on Intergovernmental relations (ACIR) studied ten farm states (largely overlapping with those in this report) and found five had decreased funding for education since adopting their FY 1986 budgets: North Dakota, Iowa, Nebraska, Arkansas and Montana. The ACIR finds such cuts to be a significant measure of state fiscal stress because education is probably the most popular public service and typically is one of the last government functions to be cut in hard times.[15/]

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[14] National Governors Association and National Association of State Budget Officers, Fiscal Survey of the States 1986 (March 1986); Since the March list of 17 states, New Mexico was also forced to cut its budgeted spending.

[15/] Advisory Commission on Intergovernmental Relations, The Agricultural Recession: Its Impact on the Finances of State and Local Government, p. 10 and Table 1, p. 8 (June 1986).

Farm states are being forced to cut their other services as well. The State of Nebraska, for example, was recently forced to cut $17 million across-the-board from its budget (with human services and public safety expenditures partially shielded). The state forestalled a second round of cuts only by increasing its sales tax rate.

The State of Iowa, after a 2.8% across-the-board budget cut in 1984 and another 3.85% cut in 1985, still faces budget problems, despite a recent sales tax increase. Mississippi, which already has one of the nation's lowest per capita state and local expenditure levels, has cut its budget three times since November, slashing department spending across-the-board and delaying important capital construction projects. State officials warn that even with the most recent budget cut, of over $13 million, Mississippi has not yet resolved its fiscal problems.

Some farm states have also been hit by declining energy prices. The State of Montana, faced with substantial losses in severance tax revenues, cut its current appropriations by 2%. To meet a projected $88 million deficit in FY 1987, Governor Ted Schwinden has proposed a further 5% across-the-board cut, as well as freezing state employee wages and cancelling scheduled increases in the state's foundation aid for public schools.

Similar conditions in North Dakota, whose FY 1986 revenues declined 19.5% from FY 1985, have forced large cuts in state education spending, with the state's share of total education spending dropping from 63% to 44%. As many as 500 teachers may be laid off.

In addition, farm states have come under increasing pressure to provide emergency financial support to farmers, and to provide increased education, counseling and job retraining for those forced from their farms. This means increased public spending. Because farmers are not accustomed to traditional relief programs (and also to assure that scarce recources are targeted to farmers most likely to succeed in returning to financial soundness), states have tended to provide aid indirectly through interest rate buy-downs or deferrals or other interest rate support programs. Thus, the State of North Dakota has created two deferral programs permitting farmers to borrow without paying interest in the short term. Similarly, Minnesota has authorized $10 million for a program to buy down farm interest rates. Minnesota is also having to allocate millions of dollars to cover losses from its Family Farm Security Program, because of farmers defaulting on loans made in the late 1970's. Officials in Missouri use state revenues to purchase low-yielding certificates of deposit at participating financial institutions, which make below market rate loans to needy farmers.[16]

Possibly because the farm states are already under financial pressure, it is noteworthy that these programs are relatively small compared to the magnitude of poverty relief programs familiar to urban areas.

Finally, as will be discussed in Part V below, the states are suffering cutbacks in federal assistance. Computer analyses have been completed on the Reagan Administration's proposed FY 1987 budget. While Congress will undoubtedly find many of the proposals unacceptable, the analyses show that the proposed budget cuts in federal support to state and local governments would exceed projected FY 1986 surpluses for all of the fifteen farm states in this report except North Dakota.[17] This follows federal cuts in aid to state and local governments averaging 23.5% (in constant dollars) from 1980-1985.[18] While some states may be able to absorb these cuts from their own revenues, the drop in federal aid hits the farm states at a time when they are least able to cope. The farm crisis, exacerbated by a major decline in federal aid, is having a direct and potentially long-term impact on the ability of farm states to finance their public services.

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[16] National Governors' Association, Center for Policy Research and Analysis, Federal and State Responses to the Farm Financial Crisis, pp. 7-9 (July 1986); Mark G. Popovich, Council of State Policy & Planning Agencies, State Emergency Farm Finance: A Review (1986).

[17] AFSCME, State of the States: A 1986 Policy Report, Table 4, p. 21. Computer analysis of the state-by-state impact of the final federal FY 1987 budget must await congressional passage of the budget bill.

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[18] Lillian Rymarowicz and Dennis Zimmerman, The Effect of Federal Tax and Budget Policies in the 1980's on the State-Local Sector, Congressional Research Service, Table 1, p. 6 (January 1986).

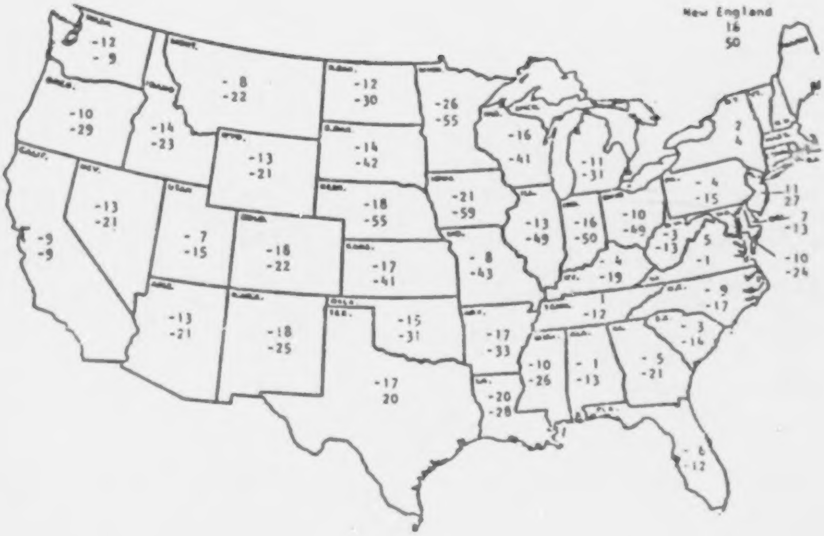
IV. The Condition of Local Governments in the Farm States

The farm crisis is also a crisis for farm communities. Increasingly, local governments must provide added services such as counseling and job training to their citizens. Outmigration, especially by people losing their farms or businesses, reduces community strength.18/ Communities also suffer when the decline in agricultural property values threatens to reduce property tax revenues, the mainstay of the local tax base.

Figure 1 presents a map showing the drop in farm property values nationally since they peaked in value in the late 1970's. Table 2 shows the decline in farm real estate value between February 1, 1981 and February 1, 1986, for the fifteen states in our study. Seven of the fifteen states saw farm values decline by over one-third: Iowa (-59%), Nebraska (-55%), Minnesota (-55%), Illinois (-49%), Missouri (-43%), South Dakota (-42%), and Kansas (-41%). Six other states lost over one-fifth of the value of their farm land: Arkansas (-33%), North Dakota (-30%), Mississippi (-26%), Idaho (-23%), Colorado (-22%), and Montana (-22%).

18/ Alvin D. Sokolow, "Local Governments: Capacity and Will", in Amos H. Hawley and Sara Mills Mazie, eds., Non-Metropolitan America in Transition, University of North Carolina Press, pp. 725-26 (1981).

FIGURE 1: Percent Change in Average Value of Farm Real Estate Per Acre
April 1, 1985 - February 1, 1986 and
February 1, 1981 - February 1, 1986


New England
16
50
-12
- 9
-10
-29
-14
-23
- 8
-22
-12
-30
-26
-55
-9
-9
-13
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-42
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-11
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-17
-33
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-12
- 9
-17
- 3
-14
-17
20
-20
-28
-10
-26
- 1
-13
- 5
-21
- 6
-12

Top No.: Change from 1985 to 1986
Bottom No.: Change from 1981 to 1986
Source: USDA

TABLE 2

THE DECLINE IN FARMLAND VALUES

Percent Change in Average Farm Real Estate, Per Acre

State	2/1/81-2/1/86	4/1/85-2/1/86 (Ten months)
North Dakota	-30%	-12%
Nebraska	-55%	-18%
South Dakota	-42%	-14%
Iowa	-59%	-21%
Montana	-22%	- 8%
Minnesota	-55%	-26%
Arkansas	-33%	-17%
Kansas	-41%	-17%
Idaho	-23%	-14%
Missouri	-43%	- 8%
Colorado	-22%	-18%
Kentucky	-19%	- 4%
Illinois	-49%	-13%
Texas	20%	-17%
Mississippi	-26%	-10%

Source: USDA, Economic Research Service, Agriculture Information Bulletin No. 499, *Farm Sector Financial Problems: Another Perspective*, (May 1986).

These figures represent declines in market value, rather than taxable value. Many farm states tax agricultural land on the basis of its productivity, and not on market value, so property tax revenues will not decline immediately. But, when assessment guidelines are revised to reflect the current earning power of the land, declines will be substantial.

Throughout the Farm Belt, local governments have already begun to feel the crunch. In Perkins County, South Dakota, taxable values fell 25% two years ago, and County Auditor Fern Brockle reports that they are still falling. In Pannee County, Nebraska, declining property tax revenues have contributed to a projected deficit of $100,000, or 20% of the county's current operating budget.

The State of Illinois has partially stabilized the taxable value of its agricultural land by limiting changes in valuations to not more than 10% in any single year. Still, in heavily-farmed central and southern Illinois, valuations are "generally declining at the maximum rate," according to George Miller, Executive Director of the Township Officials Association of Illinois.

During the late 1970's, while farmland values surged, property tax assessments and revenues failed to keep pace. Instead, farm property taxes per $100 of market value fell, from a national average of $1.10 in 1971 to $0.48 in 1981.

Farm property taxes per acre rose slightly, at an annual compound rate of about 5 percent. (This compares to increases in farm production expenses of nearly 12 percent per year over the same period). In short, assessed values didn't keep pace with market values during the period of farm prosperity and communities have no cushion now that farming is depressed.[20]

The Senate Subcommittee report concludes that: "The write-down of agricultural property values, and the accompanying decreases in the local tax base have the potential to permanently change the quality of life in rural America, particularly in those regions primarily dependent on agriculture." [21]

In addition, local tax bases have been buffeted by sizeable increases in property tax delinquency rates. Figure 2, taken from the Senate Subcommittee Report, shows the percent change in property tax delinquency rates for selected crop reporting districts between 1981-1985. The Senate Subcommittee found that in the Nebraska counties studied, delinquent taxes increased seven fold between 1980 and 1985, growing from a total of less than $.75 million dollars in 1980 to more than $5.5 million in 1985.

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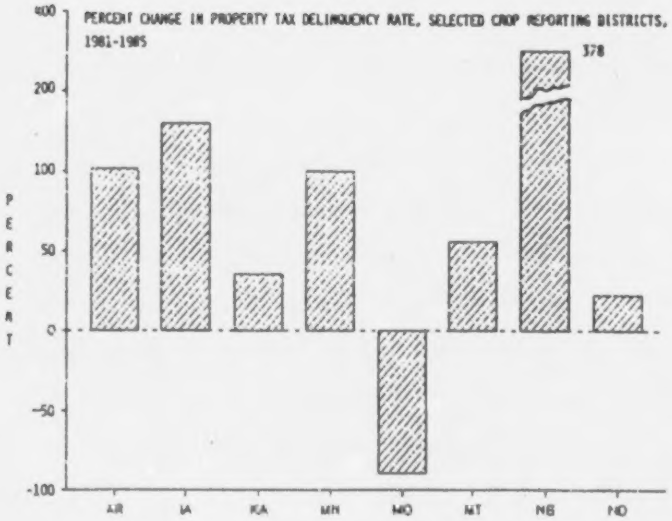
[20] James Hrubovcak and Frances A. Burke, Farm Real Estate Taxes, 1981, USDA, Economic Research Service, Table 4, p. 6 (November 1983).

[21] Senate Subcommittee Report, p. 7.

Figure 2



PERCENT CHANGE IN PROPERTY TAX DELINQUENCY RATE, SELECTED CROP REPORTING DISTRICTS, 1981-1985

Source: Senate Subcommittee on Intergovernmental Relations

Delinquencies in Iowa, Kansas, Minnesota and Montana more than doubled over the same period.[22/]

Thus, rural local governments find themselves under financial pressure and face the prospect that the pressure will increase. Because of similar financial pressure on state governments noted earlier, local governments are unlikely to obtain additional relief from the state level. Indeed, cuts in state budgets could well force states to cut aid to localities. In Nebraska, for example, Pat Vuchetich, of the State Association of Counties reports that state aid to local government has already declined 2-4% every year over the last five years.

This is important because state aid is currently the largest single source of revenue for many local rural communities, even exceeding property tax revenues. The Senate Subcommittee reports that for non-metro local governments 38% of their revenues came from state aid in 1982. For the 702 agriculturally dependent non-metro counties, more than 40% of local government revenues came from the state. For the crop reporting districts surveyed by the Senate Subcommittee, local dependence on state revenues ranged from under 20% in Montana and Kansas to over 40% in Arkansas, Minnesota and North Dakota.

[22/] *Ibid.*, pp. 16-17.

Declining local revenues and state cuts inevitably mean cuts in local services. Maintaining roads and bridges, for example, is an important responsibility of rural governments. Rural roads are essential for marketing farm products and for transporting farm supplies such as fertilizers, herbicides, insecticides and prepared feed. Especially with increased truck traffic due to reductions in rural rail service, rural roads have been deteriorating rapidly. Rural townships in four farm states -- Illinois, Minnesota, Ohio and Wisconsin -- require over an estimated $2.5 billion to bring roads and bridges to acceptable condition. Even in good times, this far exceeds available township budgets.23/

In today's hard times, even though road expenditures are supported in part by gasoline taxes, townships are being forced to close bridges and reduce roads to lower grade surfaces. In Illinois, a recent survey of the state's

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23/ David Chicoine and Norman Walzer, Financing Roads and Bridges in the Midwest, USDA, Office of Transportation and Agricultural Marketing Services, October 1984.

township highway commissioners estimated that 30% of the state's rural roads, and 32.7% of its rural bridges, required major repair or reconstruction. Faced with increasing road maintenance and construction costs on the one hand, and declining local revenues on the other, many of Illinois' rural communities, according to local government spokesman George Miller, "will be picking and choosing which roads to close." States such as Iowa and Nebraska have had to implement a "primitive roads" system, providing lower levels of service and warning motorists they travel at their own risk. Even when exacerbated by the farm crisis, rural infrastructure problems receive little publicity; but they cause serious hardship nevertheless.[24]

It is this context that makes any proposed reduction in federal support, such as a possible loss of revenue sharing, so devastating for local governments. The combination of declining local revenue, increasing demand for local services for farmers in distress, and potentially declining state assistance to localities, together make adequate funding of local services an impossibility. Rural America, and the 702 farm-dependent counties in particular, simply cannot replace the programs threatened by the federal cutbacks.

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[24] See e.g. J. Norman Reid, et. al., *Availability of Selected Public Facilities in Rural Communities: Preliminary Estimates*, USDA Economic Research Service (March 1984).

V. The Impact of Federal Cutbacks on Farm Communities

A. Federal Programs for Rural Communities

Rural governments benefit from a variety of federal programs. Many of these programs have been reduced since 1981 and are now scheduled for further cuts or outright elimination. Table 3, prepared by the National Association of Development Organizations, lists appropriations and loan authority for federal programs that (in whole or in part) provide assistance to rural development. Comparing the years FY 1980-1986, one sees major cuts in:

- Farmers Home Administration programs (over 50% drop in water and waste disposal grants and loans).
- Appalachian Regional Commission (over 50% drop in non-highway programs).
- Economic Development Administration (over 50% drop in listed programs).
- EPA construction grants (over 60% drop).
- Community Services Block Grants (over one-third drop).
- Community Development Block Grants (19% drop).
- General revenue sharing (39% drop, primarily loss of the state share of GRS).

Table 3

FEDERAL BUDGET COMPARISON, FY80-86, RURAL PROGRAMS

	1980	1981	1982	1983	1984	1985	1986	1987	Change
DEPARTMENT OF AGRICULTURE									
FmHA									
Water & Waste Disposal Grants	290.0	300.0	125.0	300.0	90.0	115.0	109.6	0.0	-109.
Water & Waste Disposal Loans	(780.0)	(750.0)	(375.0)	(600.0)	(270.0)	(340.0)	(340.0)	0.0	-340.
Community Facility Loans	(240.0)	(260.0)	(126.2)	(130.0)	(130.0)	(115.0)	(100.0)	0.0	-100.
Business & Industry Grants	10.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Business & Industry Loans	(1073.0)	(761.0)	(300.0)	(300.0)	(300.0)	(61.4)	(100.0)	0.0	-100.
Fire Protection Grants	3.5	3.5	3.3	3.3	3.3	3.3	3.1	0.0	-3.
Planning Grants (Sec. 111)	6.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.
Rental Housing Loans	(801.3)	(842.5)	(953.7)	(882.0)	(940.0)	(903.3)	(700.0)	0.0	-700.
Resource Cons. & Develop. (RC&D) Loans	(1.0)	(2.0)	0.9	1.2	4.0	0.5	2.0	0.0	-2.
SCS									
RC & D Projects	32.0	34.0	36.5	30.7	26.0	26.3	25.6	11.4	-14.
APPALACHIAN REGIONAL COMMISSION									
Total Non-Highway Programs	126.6	119.9	62.1	83.0	69.1	59.3	54.9	4.0	-50.
Research, T.A., Other	2.6	1.9	2.0	2.0	2.5	4.0	2.0	0.0	-2.
Local Development Districts	5.7	6.0	4.5	4.0	4.0	3.5	2.0	0.0	-2.
Jobs & Private Investment	n.a.	n.a.	n.a.	54.0	27.3	20.4	12.3	0.0	-12.
Distressed Counties Program	n.a.	n.a.	n.a.	15.0	17.6	17.0	3.4	0.0	-3.
Health Finish-up Program	n.a.	n.a.	n.a.	0.2	4.1	2.1	0.0	0.0	0.
* $15 million of $75 million is earmarked									
** $2.0 million of '85 Area Dev. earmarked									
DEPARTMENT OF COMMERCE									
EDA									
Planning Grants	33.6	23.9	24.7	27.0	27.0	26.0	27.0	0.0	-27.0
Public Works	260.7	257.9	129.9	229.9	170.0	156.0	151.2	0.0	-151.2
Economic Adjustment Grants	85.9	12.6	33.0	33.0	33.0	33.0	26.0	0.0	-26.0
Technical Assistance	30.7	26.4	7.9	7.5	0.0	0.2	5.0	0.0	-5.0
Research & Evaluation	4.2	2.7	1.6	2.0	2.0	2.0	2.0	0.0	-2.0
Direct Loans	116.4	54.1	0.0	17.0	10.1	0.0	0.0	0.0	0.0
Loan Guarantees	(425.0)	(425.0)	(150.0)	(30.0)	(150.0)	(150.0)	(150.0)	0.0	-150.0
Salaries & Expenses	40.0	39.7	25.0	27.6	27.9	28.4	24.9	0.0	-24.9
REGIONAL DEVELOPMENT (Title V)	109.4 *	67.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0
ENVIRONMENTAL PROTECTION AGENCY									
Construction Grants	4900.0	5100.0	2400.0	2430.0	2435.0	2400.0	2374.2	1800.0	-574.2
DEPARTMENT OF HEALTH AND HUMAN SERVICES									
Community Services Block Grant (1980-81 CSA)	930.5	542.3	348.3	375.1	348.0	360.1 **	366.0	0.0	-366.0
National Health Service Corp.	77.5	92.3	80.4	80.3	65.3	59.7	58.5	47.0	-11.5
Rural Development Loan Fund	30.0	7.7	0.0	0.0	10.0	0.0	0.0		0.0
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT									
Comm. Dev. Block Grant (CDBG)(32% rural)	3862.0	3694.6	3456.0	4456.0	3468.0	3468.0	3124.0	2124.0	-999.
Urban Dev. Action Grant (UDAG)(25% rural)	675.0	675.0	473.7	440.0	440.0	440.0	330.0	0.0	-330.0
Rehabilitation Loans (312)	214.2	132.3	49.9	66.9	132.1	0.0	0.0	0.0	0.0

Table 3 (continued)

FEDERAL BUDGET COMPARISON, FY80-86, RURAL PROGRAMS

DEPARTMENT OF INTERIOR									
State Outdoor Rec. (LWCF) Grants	310.6	293.5	46.4	112.2	115.2	102.4	50.0	0.0	-50.0
State Historic Preservation Grants	63.0	51.7	23.3	46.9	22.0	21.1	20.5	0.0	-20.5
Payment in Lieu of Taxes	108.0	108.0	91.3	96.1	105.0	102.9	105.0	105.0	0.0
DEPARTMENT OF LABOR									
JTPA State Block Grant (1980 CETA)	3342.0	n.a.	n.a	2179.3	2270.0	1886.2	1062.2	1020.0	-43.2
Summer Youth (1980 CETA)	2238.5	n.a.	n.a	824.2	824.5	824.5	664.5	664.5	0.0
Dislocated Worker (1980 Trade Adj. Asst.)	1664.6	n.a.	n.a	110.0	262.7	225.3	100.0	100.0	0.0
Comm. Service Empl. for Older Amer.	266.9	277.1	282.0	319.5	317.3	326.0	326.0	326.0	0.0
SMALL BUSINESS ADMINISTRATION									
503 Cert. Development Co. Loans	(27.7)	(100.0)	(150.0)	(250.0)	(250.0)	(450.0)	400.0	0.0	-400.0
Small Bus. Investment Co. Loans	140.0	160.0	124.1	159.9	250.0	256.0	250.0	0.0	-250.0
Minority Ent. SBIC Loan (Direct)	32.5	41.2	27.3	25.7	41.0	41.0	41.0	0.0	-41.0
General Business Loans (Guaranteed)	(3000.0)	(2004.7)	(1516.5)	(2094.4)	(2600.0)	(2660.0)	(2650.0)	0.0	0.0
General Business Loans (Direct)	210.7	205.1	114.0	85.5	100.3	100.0	0.0	0.0	0.0
Handicapped Loans(Guaranteed)	(8.3)	(1.7)	(0.0)	(1.6)	(5.0)	(5.0)	(5.0)	0.0	0.0
Handicapped Loans (Direct)	19.9	25.0	12.1	14.9	20.0	24.0	15.0	0.0	-15.0
Economic Opportunity Loans (Guaranteed)	(24.5)	(28.4)	(13.4)	(38.5)	(60.0)	(60.0)	(60.0)	0.0	0.0
Economic Opportunity Loans (Direct)	63.2	69.0	21.0	16.5	45.0	45.0	25.0	0.0	-25.0
Energy Loans (Guaranteed)	(11.3)	(7.3)	(1.3)	(3.2)	(15.0)	(15.0)	(15.0)	0.0	0.0
Energy Loans (Direct)	14.4	6.7	1.2	0.4	3.0	0.0	0.0	0.0	0.0
Veterans Loans (Direct)	0.0	0.0	0.0	6.4	25.0	25.0	20.0	0.0	-20.0
Management Assistance	22.1	19.5	29.4	33.1	39.5	39.1	17.4		-17.4
Sec. 501 Program	0.0	0.0	0.0	0.0	2.0	5.0	0.0	0.2	0.2
SCORE Program	3.9	8.1	11.6	15.4	25.5	20.5	25.0		-25.0
Sec. 502 Dev. Company Loans (Direct)	44.7	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TENNESSEE VALLEY AUTHORITY									
Economic & Comm. Resources	12.4	11.2	16.0	18.1	20.0	22.5	14.0	0.0	-14.0
DEPARTMENT OF TRANSPORTATION									
Local Rail Service Assistance	82.6	67.4	28.0	22.0	25.2	23.2	23.2	0.0	-23.2
Sec. 18 Mass Transit Grants (100 % rural)	57.1	73.2	74.3	77.2	79.2	81.5	62.0	*	-62.0
Aircraft Purchase Loans	(650.0)	(427.0)	(201.5)	(102.5)	(0.7)	0.0	0.0	0.0	0.0
Appalachian Highway Systems	229.7	210.2	107.6	116.1	110.0	104.3	85.0	0.0	-85.0
Secondary (Rural) Highway System	772.9	643.1	307.0	602.3	590.0	590.0	650.0	*	-650.0
Payments to Air Carriers(Local Air Service)	95.0	114.5	86.1	52.1	46.3	46.2	25.0	0.0	-25.0
DEPARTMENT OF TREASURY									
General Revenue Sharing	6854.9	4569.9	4566.7	4566.7	4566.7	4566.7	4200.0	0.0	-4200.0

NOTES: (1) Brackets () indicate Loan Guarantee Authority (e.g., EDA Loan Guarantees)
(2) n.a. indicates not applicable or not available.
(3) The Comprehensive Employment and Training Act preceded JTPA.

Source: National Association of Development Organizations
March 10, 1986

As can be seen from Table 3, these cuts in appropriations and loan authority amount to billions of dollars a year in service reductions. Rural areas receive a significant part of these federal benefits (e.g., about 30 percent of Community Development Block Grants), and cuts in rural programs have been as significant as the more visible drop in federal support for cities.[25]

Potentially more serious is the FY 1987 column of Table 3, showing further cuts, in many cases even more substantial than past reductions, proposed in the Administration's FY 1987 budget. Fortunately the Congress is unlikely to accept many of these cuts. Revenue sharing (GRS), for example, is a program with major benefits to rural areas that has been the subject of concerted efforts to continue funding.

Another way to examine federal support for rural areas is to look at programs for smaller governments -- the 36,000 rural towns, townships, municipalities and counties with populations under 25,000. While some smaller governments are in urban areas, most are not. Economists estimate that federal aid to these smaller governments has dropped 24 percent between FY 1980 and FY 1985. Indeed, since all of these figures are in current dollars and don't include inflation, they understate the impact of these cuts.

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[25] National Association of Development Organizations, The 1987 Budget and Rural Economic Development: How Will We Fill the Gap? (March 10, 1986).

Five programs account for an estimated 85 percent of federal aid currently received by smaller local governments.[26] Of these, General Revenue Sharing is by far the most important. In FY 1985, GRS distributed over $1 billion to the 36,000 small governments. Often GRS was the only federal aid these localities received. The Administration has refused to renew GRS. As discussed below, this would cause significant adverse effects for communities already struggling to cope with the farm crisis.

Community Development Block Grants (CDBGs) are administered by the U.S. Department of Housing and Urban Development. In FY 1985, CDBG funds provided about $883 million to 3,000 small governments. The Administration would like to reduce CDBG funds by about half a billion dollars in FY 1987, but is unlikely to convince Congress to enact such deep cuts.

The Environmental Protection Agency provides wastewater construction grants to help localities meet federal clean water requirements. In FY 1985, EPA allocated about $800 million to small governments. The Administration has proposed terminating this EPA funding by 1990, with a four-year phaseout.

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[26] This discussion relies heavily upon Alvin D. Sokolow, Small Governments and the FY 1987 Budget, National Center for Small Communities. (Discussion Draft, April 8, 1986).

The Farmers Home Administration (FmHA) provides a number of loan and grant programs (See Table 3), for water, wastewater and community facilities. In FY 1985, these FmHA programs provided $455 million in loans and $130 million in grants to about 1,300 rural governments (generally those under 10,000 in population). The Administration has proposed termination of virtually all of these FmHA programs, although Congress is unlikely to agree.

Finally, the Economic Development Administration (EDA) provides public works grants to state and local governments. In FY 1985, EDA provided about $90 million to 110 small governments for infrastructure improvements. The Administration is seeking to terminate these EDA public works grants.

The National Center for Small Communities has published an estimate that the Administration proposals would decrease federal aid in FY 1987 for small local governments by 58 percent. This would mean a drop in support from an estimated $4 billion to $1.6 billion annually. While these estimates are high, based upon imprecise data available about rural benefits of some programs, they show the increased burden on rural communities if federal support were indeed withdrawn.[27]

B. The Impact on Farm Counties of Eliminating Revenue Sharing

The major program benefiting rural communities is General Revenue Sharing. With the large-scale cuts taking place annually in federal support for states and localities, GRS becomes especially important. As a source of unrestricted funds, GRS at least enables communities to allocate scarce federal dollars where they are needed. Because termination or curtailment of GRS would cause special hardships for localities struggling with the farm crisis, it deserves more detailed examination.

For fiscal 1986, GRS will provide $912.1 million to all general purpose governments, rural and urban, in the fifteen farm states included in this study. In the years since the beginning of revenue sharing in 1972, through the 1986 payments, general revenue sharing will have provided a total of over $19 billion to the fifteen states. (See Table 4.)

Because General Revenue Sharing is one of the few

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[27] Regrettably, current statistical information about rural communities is often unavailable. For a discussion of these gaps, see Thomas F. Stinson, "Fiscal Status of Local Governments", pp. 736-737, and Olaf F. Larson, "Agriculture and the Community", pp. 147-148, in Non-Metropolitan America in Transition, op. cit.

TABLE 4

GRS Support to Farm States

State	1986 GRS Allocation to Local Governments (In $ millions)	1972-1986 Total GRS Payments* (In $ millions)	GRS as a % of Total Adjuste Taxes of County Governments
North Dakota	$ 11.2 million	$ 252 million	13.9%
Nebraska	25.7	550	10.1%
South Dakota	12.5	299	10.8%
Iowa	49.3	1,049	8.1%
Montana	16.9	324	11.2%
Minnesota	78.7	1,636	9.8%
Arkansas	40.2	840	29.7%
Kansas	34.7	739	6.4%
Idaho	17.1	325	17.8%
Missouri	68.4	1,514	8.0%
Colorado	48.0	1,063	6.1%
Kentucky	63.2	1,156	21.2%
Illinois	182.5	4,088	6.5%
Texas	210.7	4,177	6.5%
Mississippi	53.0	1,216	22.4%
Fifteen State Total	$912.1 million	$19,228 million	

* Through FY 1980, GRS provided funds for state governments as well as localities.

Source: U S. Treasury Department, Office of Revenue Sharing federal grant programs smaller communities receive, its elimination will hit farming communities particularly hard. On average, while GRS constituted 21.8% of federal aid to general purpose localities, revenue sharing constituted 44.5% of federal aid received by general purpose localities in farm-dependent areas. Table 5 shows GRS as a percent of all federal aid received by communities in 1982 for the ten states studied by the Senate Subcommittee on Intergovernmental Relations. (All but one of the ten states is included in the ranking fifteen states in the present study.) It can be seen in Table 5 that, while GRS ranges between 18.7% and 32.2% of all federal aid received by non-agricultural communities in the ten states, proportions are much higher for agricultural communities. In 1982, General Revenue Sharing ranged between 29.4% and 67.8% of all federal aid provided to agricultural communities in the ten states studied by the Subcommittee.

TABLE 5

GRS Is Especially Important For Farm Communities

State	GRS As % of All Federal Aid, 1982
North Dakota	
Non-agricultural communities	20.6
Agricultural communities	38.6
Iowa	
Non-agricultural	25.8
Agricultural	46.6
Nebraska	
Non-agricultural	22.6
Agricultural	49.3
Arkansas	
Non-agricultural	29.9
Agricultural	29.4
Kansas	
Non-agricultural	24.1
Agricultural	51.3
Georgia	
Non-agricultural	21.2
Agricultural	54.1
Minnesota	
Non-agricultural	22.4
Agricultural	42.2
Mississippi	
Non-agricultural	32.2
Agricultural	67.8
Missouri	
Non-agricultural	18.7
Agricultural	32.1
Montana	
Non-agricultural	23.9
Agricultural	33.4

Source: U.S. Senate Subcommittee on Intergovernmental Relations, Congressional Record, April 22, 1986, p. S4697 (Statement of Senator Durenberger).

GRS also represents a large amount in relation to the tax revenues of those communities. In FY 1985 (as shown in Table 4, above), GRS provided money amounting to over 10% of the average county tax revenues in eight of the fifteen ranking states in the present study: Arkansas (29.7%), Mississippi (22.4%), Kentucky (21.2%), Idaho (17.8%), North Dakota (13.9%), Montana (11.2%), South Dakota (10.8%), and Nebraska (10.1%). These averages are significantly higher than the national average for all counties in the United States (8.3%).

There is another way to look at the impact on farm communities if revenue sharing is eliminated. Table 6 (again using FY 1985 GRS levels) presents a state-by-state impact of eliminating revenue sharing under two scenarios: either localities raise property taxes to make up the loss or they cut services across-the-board to make up the loss. Once again, the impact on farm states seems to be significantly higher than the impact on the average state. Local governments in the states listed (not counting special districts such as school districts) would have to raise their property taxes by over 10% in eleven of the fifteen states: Arkansas (46.23%), Kentucky (37.01%), Missouri (24.08%), Mississippi (21.22%), Idaho (17.28%), South Dakota

(13.97%), North Dakota (13.29%), Colorado (12.05%), Illinois (11.78%) and Nebraska (11.41%). This compares to a lower national average (9.2%).

TABLE 6

STATE-BY-STATE IMPACT OF ELIMINATING GENERAL REVENUE SHARING UNDER TWO SCENARIOS

	RAISE PROPERTY TAXES TO MAKE UP LOSS	OR	ACROSS-THE-BOARD REDUCTION LOCAL SERVICES TO MAKE UP LOSS		
State	Percent Increase in Local Government Property Tax, Excluding Special Districts	Reduction of Police Officers	Reduction of Fire Fighters	Reduction of Human Service Workers	Reduction of Street Maintenance Workers
Arkansas	46.23 %	282	113	25	610
Colorado	12.05	229	71	376	381
Idaho	17.28	123	38	28	126
Illinois	11.78	1,267	459	682	1,277
Iowa	7.53	183	86	186	622
Kansas	7.54	151	63	24	423
Kentucky	37.01	404	211	72	496
Minnesota	9.31	216	87	956	659
Mississippi	21.22	253	122	151	1,007
Missouri	24.08	504	159	32	651
Montana	6.69	79	26	70	193
Nebraska	11.41	124	50	87	461
North Dakota	13.29	56	17	45	209
South Dakota	13.97	78	30	38	298
Texas	8.47	1,177	539	123	1,843
Total For All States	9.20 %	18,494	8,150	20,220	26,065

Source: National Coalition to Save General Revenue Sharing, "Everyone Shares in General Revenue Sharing," Table 4.

Note: Calculations based on data provided in Bureau of the Census, Governmental Finance in 1983-1984, and Public Employment in 1984.

Alternatively, if services were cut across-the-board, eliminating GRS would force the elimination of thousands of police officers, fire fighters, human service workers, and street maintenance workers. Pat Vuchetich, of the Nebraska Association of Counties, predicts that in his state human services, especially discretionary programs in areas such as community development, senior citizen assistance, and other "selective" services, will be the most vulnerable to cuts. In Edmunds County, South Dakota, County Auditor Irene Rissman reports that without revenue sharing the county might well be forced to eliminate its senior citizens programs altogether. Programs such as these have provided critical support as the farm crisis takes its toll on rural communities and families.

For other counties, the elimination of GRS will force drastic cutbacks in capital outlays. In a survey of Missouri localities conducted by the Missouri Municipal League, 34% of the respondents indicated that without revenue sharing they would have to reduce capital expenditures, extending the use of equipment beyond its normal economic life, and deferring capital improvements. For many rural counties, this will mean fewer funds for road construction and repair. In Pine County, Minnesota, for example, GRS funds have helped the county cope with the deterioration of county roads. Director of Human Services

Robert Wald reports "the probability of shifting funds (to make up for lost revenue sharing funds) is doubtful." Officials in Howard and Frontier counties in Nebraska, and Benton, Monroe, and Lamar counties in Mississippi, also predict that the loss of revenue sharing will force cutbacks in roadwork. In Madison County, Montana, Administrative Assistant Dale Kelley predicts similar effects, insisting the county "is absolutely not able to transfer funds; there are no other sources."

Some counties will have to cut operating expenditures. In Ballard County, Kentucky, for example, revenue sharing represents an amount equal to almost one-fifth of the County's tax revenues, helping fund police protection, solid waste disposal, senior citizens programs and welfare programs. Hard hit by farm foreclosures and tax delinquencies, the county and its general fund are already "stretched to the limit", according to Court Clerk Mary Dunn, and cannot absorb these programs. Without revenue sharing the county will therefore have to make deep cuts. In Schuyler County, Missouri, County Clerk Judy Closkey reports that "because there is no place to transfer funds from, there definitely will be cuts in law enforcement." Ozark County, Missouri, will have to take similar steps. County Clerk Dallas Herd predicts, "Two of three positions in the sheriff's department may be abolished . . . I don't see a way in the world we could pay for the deputies with other funds. We just don't have it." Officials in Mercer County, Missouri, predict that without revenue sharing funds the county will be forced to drop its cooperative extension program. In Yazoo County, Mississippi, Chancery Clerk Catherine Prewitt predicts that elimination of GRS will force the county to discontinue the rural garbage pickup and ambulance services currently funded by the program.

In short, the withdrawal of revenue sharing funds will hurt farm communities at a time when they can't take up the slack. Beset by declining economies and their own shrinking revenue bases, farm communities will be forced to pare services needed by their citizens. For the national government, with its record trillion dollar FY 1987 budget, to claim "We have no revenue to share"28/ is to undercut the financial basis of mutual support farm communities rightfully expect of our federal system.

28/ Treasury Secretary James Baker. [cite]

VI. Conclusion

Today's farm problems are producing a long-term economic restructuring of American agriculture. Its impact on local governments will be severe. Declining farm property values can turn into declining local property tax revenues, and declining farm incomes mean declining state tax revenues and the potential for restriction on state aid to localities. Even while revenues are dropping, the demand is increasing for services to support families thrown into economic disarray by the farm crisis.

Each federal program serving rural America has its significant function. EPA Wastewater Construction Grants are intended to help localities meet standards mandated by federal clean water legislation; Community Development Block Grants are awarded on a competitive basis to help communities improve low- and moderate-income areas; Farmers Home Administration programs are intended to help rural areas cope with the disadvantages of small scale and dispersed populations requiring essential services; and public works grants are intended to stimulate local employment through infrastructure improvements. Finally, General Revenue Sharing serves as a cushion that protects states and localities against fluctuations in their tax bases in the course of economic cycles. Because of its unrestricted nature, GRS is especially important to help localities retain the highest priority services being abandoned by the federal government.

Each of these purposes is especially important today, when economic adversity has dislocated communities so severely. When states and localities are unable to assure prompt recovery, sound public policy would call for an increasing federal role. Instead, removing General Revenue Sharing and other programs would take away the federal cushion just when localities most require it. By limiting revenue sharing and the other public programs, Washington would be removing much of its support, and would thereby assure that the federal government increases rather than alleviates the hardship of thousands of farm communities.